



Proposed Accounting Standards Update

Issued: June 29, 2010

Comments Due: September 7, 2010

**Fair Value Measurements and Disclosures
(Topic 820)**

**Amendments for Common Fair Value Measurement and
Disclosure Requirements in U.S. GAAP and IFRSs**

This Exposure Draft of a proposed Accounting Standards Update of Topic 820 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director

File Reference No. 1830-100

The *FASB Accounting Standards Codification™* is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites individuals and organizations to send written comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received in writing by September 7, 2010. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1830-100. Those without email should send their comments to "Technical Director, File Reference No. 1830-100, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to its website and by making them available in its public reference room in Norwalk, Connecticut.

An electronic copy of this Exposure Draft is available on the FASB's website until the FASB issues a final Accounting Standards Update.

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Proposed Accounting Standards Update

Fair Value Measurements and Disclosures (Topic 820)

Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

June 29, 2010

Comment Deadline: September 7, 2010

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

This proposed Update is a result of the continuing efforts of the FASB and the International Accounting Standards Board (IASB) to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs).

The Boards are working together to ensure that fair value will have the same meaning in U.S. GAAP and in IFRSs and that their respective fair value measurement and disclosure requirements will be the same (except for minor differences in wording and style). The Boards believe the amendments in this proposed Update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in shareholders' equity in the financial statements.

What Are the Main Provisions?

The amendments in this proposed Update would result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. As a result, the proposed amendments would change the wording used to describe many of the principles and requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this proposed Update to result in a change in the application of the requirements in Topic 820.

Some of the proposed amendments would clarify the Board's intent about the application of existing fair value measurement guidance or would change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The more notable of those proposed amendments include the following:

1. Highest and best use and valuation premise
2. Measuring the fair value of an instrument classified in shareholders' equity
3. Measuring the fair value of financial instruments that are managed within a portfolio
4. Application of blockage factors and other premiums and discounts in a fair value measurement
5. Additional disclosures about fair value measurements.

How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update would change the wording used to describe the principles and requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The proposed amendments include the following:

1. Those amendments that would clarify the Board's intent about the application of existing fair value measurement and disclosure requirements
2. Those amendments that would change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements.

In addition, some wording changes were necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way so that consistency in application across jurisdictions would be improved (for example, using the word *shall* rather than *should* to describe the requirements in U.S. GAAP).

The proposed amendments that would clarify the Board's intent about the application of existing fair value measurement guidance include the following:

1. Highest and best use and valuation premise—The proposed amendments would specify that the concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities.

The Board decided that the highest and best use concept is not relevant when measuring the fair value of financial assets or of liabilities because such items do not have alternative uses and their fair values do not depend on their use within a group of other assets or liabilities. Topic 820 currently specifies that the concepts of highest and best use and

valuation premise are relevant when measuring the fair value of assets, but it does not distinguish between financial and nonfinancial assets. The Board believes that those proposed amendments would not affect the fair value measurement of nonfinancial assets and would improve consistency in the application of the highest and best use and valuation premise concepts in a fair value measurement.

However, the Board expects that the proposed amendments might affect current practice for reporting entities using the in-use valuation premise to measure the fair value of financial assets, as described below in the section “Measuring the fair value of financial instruments that are managed within a portfolio”.

2. Measuring the fair value of an instrument classified in shareholders' equity—The proposed amendments would provide guidance for measuring the fair value of an instrument classified in shareholders' equity, such as equity interests issued as consideration in a business combination. The proposed guidance would specify that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant who holds the instrument as an asset.

U.S. GAAP currently does not contain explicit guidance for measuring the fair value of an instrument classified in shareholders' equity. However, Topic 820 states that the definition of fair value should be applied to an instrument measured at fair value that is classified in shareholders' equity. The IASB Exposure Draft, *Fair Value Measurement*, issued in May 2009, contains explicit guidance about measuring the fair value of a reporting entity's own equity instruments.

The Board believes that providing guidance on how to apply the principles of Topic 820 when measuring the fair value of an instrument classified in shareholders' equity would improve consistency in application and increase the comparability of fair value measurements among reporting entities applying U.S. GAAP or IFRSs. The Board does not expect those proposed amendments to affect current practice.

The proposed amendments that would change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements include the following:

1. Measuring the fair value of financial instruments that are managed within a portfolio—A reporting entity that holds a group of financial assets and financial liabilities is exposed to market risks (that is, interest rate risk, currency risk, or other price risk) and to the credit risk of each of the counterparties. The proposed amendments would permit an exception to the requirements in Topic 820 for measuring fair value when a reporting entity manages its net exposure, rather than its gross

exposure, to those risks. Financial institutions and similar reporting entities that hold financial assets and financial liabilities often manage those instruments in that manner. That exception would permit a reporting entity to measure the fair value of the financial assets and financial liabilities that are managed in that way on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk or to transfer a net short position (that is, a liability) for a particular risk in an orderly transaction between market participants at the measurement date.

Reporting entities that apply U.S. GAAP or IFRSs currently reach similar fair value measurement conclusions when measuring the fair value of financial assets and financial liabilities that are managed in the manner described above. However, the guidance in U.S. GAAP and IFRSs for measuring the fair value of financial instruments is articulated differently. The proposed amendments would result in U.S. GAAP and IFRSs having the same requirements for measuring the fair value of financial instruments.

The Board believes that the proposed amendments would not change how financial assets and financial liabilities that are managed on the basis of a reporting entity's net risk exposure are measured in practice. However, the proposed amendments might affect current practice for reporting entities that apply the in-use valuation premise more broadly. For example, a reporting entity that uses the in-use valuation premise to measure the fair value of financial assets when the reporting entity does not have offsetting positions in a particular market risk (or risks) or counterparty credit risk might arrive at a different fair value measurement conclusion when applying the proposed amendments.

2. Application of blockage factors and other premiums and discounts in a fair value measurement—The amendments in this proposed Update would do the following:
 - a. Prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). That is consistent with U.S. GAAP for fair value measurements categorized within Level 1 of the fair value hierarchy
 - b. Specify that a blockage factor is not relevant and, therefore, should not be used when fair value is measured using a valuation technique that does not use a quoted price for the asset or liability (or similar assets or liabilities). U.S. GAAP currently does not contain explicit guidance on the use of a blockage factor for fair value measurements categorized within Level 2 or Level 3 of the fair value hierarchy

- c. Specify that fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy take into account other premiums and discounts (for example, a control premium or a noncontrolling interest discount) when market participants would consider those premiums or discounts when pricing an asset or a liability, consistent with the unit of account for that asset or liability.

The Board believes that the proposed amendments might affect current practice for reporting entities that apply a blockage factor in fair value measurements that are measured using quoted prices and are categorized within Level 2 of the fair value hierarchy. The Board does not expect that the proposed amendments would affect current practice for other fair value measurements categorized within Level 2 of the fair value hierarchy or for fair value measurements categorized within Level 3 of the fair value hierarchy.

3. Additional disclosures about fair value measurements—The proposed amendments would expand the disclosures on fair value measurements. The Board has received input from users of financial statements requesting more information about the following:
 - a. The measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy, such as the current disclosure requirement in IFRS 7, *Financial Instruments: Disclosures*. A reporting entity would be required to disclose the effect on a fair value measurement of changing one or more unobservable inputs that could have reasonably been used to measure fair value in the circumstances.
 - b. A reporting entity's use of an asset in a way that differs from the asset's highest and best use when that asset is recognized at fair value in the statement of financial position on the basis of its highest and best use.
 - c. The categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed (for example, a financial asset that is measured at amortized cost in the statement of financial position, but for which fair value must be disclosed in accordance with the guidance in Topic 825, Financial Instruments).

The Board believes that the proposed amendments would achieve the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and would improve the understandability of the fair value measurement guidance currently in U.S. GAAP.

When Would the Amendments Be Effective?

The effective date will be determined after the Board considers the feedback on the amendments in this proposed Update.

The proposed amendments would be effective as of the beginning of the period of adoption. A reporting entity would recognize a cumulative-effect adjustment in beginning retained earnings in the period of adoption if a difference exists in a fair value measurement of an item recorded at fair value as a result of applying the amendments in this proposed Update (that is, a limited retrospective transition). A reporting entity would be required to provide the additional proposed disclosures upon adoption (that is, prospectively).

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this proposed Update are the result of the FASB's and the IASB's continuing efforts to develop common requirements for measuring fair value and for disclosing information about fair value measurements. Consequently, those amendments would improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. In their deliberations, the FASB and the IASB discussed the significant differences between the current requirements in U.S. GAAP and the proposals in the IASB Exposure Draft on fair value measurement.

The Boards are working to ensure that, to the extent possible, their respective fair value measurement standards will be nearly identical. The following style differences will remain in the Boards' respective standards:

1. There will be differences in references to other U.S. GAAP and IFRSs—For example, regarding related party transactions, U.S. GAAP would refer to Topic 850, Related Party Disclosures, and IFRS would refer to IAS 24, *Related Party Disclosures*.
2. There will be differences in style—For example, U.S. GAAP would refer to a *reporting entity* and IFRS would refer to *an entity*.
3. There will be differences in spelling—For example, U.S. GAAP would refer to *labor costs* and IFRS would refer to *labour costs*.
4. There will be different references to a particular jurisdiction—For example, U.S. GAAP would refer to *U.S. Treasury securities* and IFRS would refer to *government securities*.

The Boards believe that those differences would not result in inconsistent interpretations in practice by entities applying U.S. GAAP or IFRSs. In addition, the U.S. GAAP and IFRS fair value measurement standards would have the following differences:

1. Different assets, liabilities, and equity instruments are measured at fair value—The standards in U.S. GAAP and IFRSs that require or permit fair value measurements are different. As a consequence, an asset, a liability, or an equity instrument that is measured at fair value in U.S. GAAP might not be measured at fair value in IFRSs and vice versa. The Boards have separate projects to address the measurement bases in other standards (for example, the projects to address the accounting for financial instruments and leases).
2. There will be different accounting requirements in U.S. GAAP and IFRSs for measuring the fair value of investments in investment company entities—The guidance in Topic 946, Financial Services—Investment Companies, requires an investment company entity to recognize its underlying investments at fair value on a recurring basis. Topic 820 provides a practical expedient that permits a reporting entity with an investment in an investment company entity to use the reported net asset value without adjustment as a measure of fair value in specific circumstances. IAS 27, *Consolidated and Separate Financial Statements*, requires an investment company entity to consolidate its controlled underlying investments. Because IFRSs do not have accounting requirements that are specific to investment company entities, the IASB decided that it would be difficult to identify the circumstances in which such a practical expedient could be applied given the different practices for calculating net asset values in jurisdictions around the world. For example, investment company entities may report under local country GAAP, which may have recognition and measurement requirements that differ from those in IFRSs. The Boards are currently reviewing the accounting for investment company entities as part of their joint project on consolidation.
3. There will be different disclosure requirements—Some of the disclosures about fair value measurements will be different for U.S. GAAP and IFRSs. For example, IFRSs do not distinguish between *recurring* and *nonrecurring* fair value measurements. In addition, because IFRSs generally do not allow net presentation for derivatives, the amounts disclosed for fair value measurements categorized within Level 3 of the fair value hierarchy might differ.

The Boards will continue their discussions after considering the comments received on this proposed Update and on the proposal in the IASB Exposure Draft, *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

The FASB and the IASB will jointly consider all comment letters received on this proposed Update. All respondents are encouraged to submit one comment letter to the FASB. It is not necessary to submit letters to both the FASB and the IASB. However, the IASB will accept comment letters from its constituents on the amendments in this proposed Update.

Question 1: This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:

- a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?
- b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.

Question 2: The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.

Question 3: Do you agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders' equity? Why or why not?

Question 4: The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.

- a. Do you think that proposal is appropriate? If not, why not?
- b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.

Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?

Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a noncontrolling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.

- a. Do you think that proposal is appropriate? If not, why not?
- b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

Question 10: There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.

Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for

nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?

Summary of Proposed Amendments to the *FASB Accounting Standards Codification*TM

The following table provides a summary of the proposed amendments to the Codification.

Codification Section	Description of Changes
<i>Title</i> (Topic 820)	<ul style="list-style-type: none"> • Amended the title of Topic 820 • Amended references to the title of Topic 820 within Subtopic 820-10
<i>Overview and Background</i> (820-10-05)	<ul style="list-style-type: none"> • Added three paragraphs of introduction material • Superseded guidance on liabilities issued with an inseparable third-party credit enhancement (measurement guidance for those liabilities is included in Section 820-10-35)
<i>Scope and Scope Exceptions</i> (820-10-15)	<ul style="list-style-type: none"> • No significant amendments
<i>Recognition</i> (820-10-25)	<ul style="list-style-type: none"> • Amended and moved guidance on liabilities issued with an inseparable third-party credit enhancement
<i>Initial Measurement</i> (820-10-30)	<ul style="list-style-type: none"> • Amended language to conform grammar and style to the IASB's proposed fair value measurement standard • Reorganized guidance so the content is presented in a manner similar to the IASB's proposed fair value measurement standard

Codification Section	Description of Changes
<p><i>Subsequent Measurement</i> (820-10-35)</p>	<ul style="list-style-type: none"> • Amended language to conform grammar and style to the IASB's proposed fair value measurement standard • Reorganized guidance so the content is presented in a manner similar to the IASB's proposed fair value measurement standard • Amended highest and best use and valuation premise guidance to reflect the Board's decision that the highest and best use and valuation premise concepts are only relevant for measuring the fair value of nonfinancial assets • Added guidance for measuring the fair value of financial assets and financial liabilities when a reporting entity has offsetting positions in market risks or counterparty credit risk • Added guidance for measuring the fair value of an instrument classified in a reporting entity's stockholders' equity • Amended guidance related to the application of blockage factors and other premiums and discounts in a fair value measurement
<p><i>Disclosure</i> (820-10-50)</p>	<ul style="list-style-type: none"> • Amended language to conform grammar and style to the IASB's proposed fair value measurement standard • Amended guidance related to disclosure requirements for recurring and nonrecurring fair value measurements • Added measurement uncertainty analysis disclosure for fair value measurements categorized within Level 3 of the fair value hierarchy • Added disclosure when a reporting entity uses an asset in a way that differs from the asset's highest and best use when that asset is recognized at fair value in the statement of financial position on the basis of its highest and best use

Codification Section	Description of Changes
<p><i>Disclosures</i> (825-10-50)</p>	<ul style="list-style-type: none"> Added disclosure of the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed
<p><i>Implementation Guidance and Illustrations</i> (820-10-55)</p>	<ul style="list-style-type: none"> Amended language to conform grammar and style to the IASB's proposed fair value measurement standard Reorganized guidance so the content is presented in a manner similar to the IASB's proposed fair value measurement standard Added an example illustrating the measurement uncertainty analysis disclosure
<p>Conforming Amendments</p>	<ul style="list-style-type: none"> Updated paragraph references in Subtopics 270-10, 715-20, 805-30, 815-20, 825-10, 926-605, 958-30, 958-310, 958-605, and 958-805.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–115. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

2. Because many of the amendments are nonsubstantive, conforming changes (to IASB style or language) and would not result in a change in the application of the guidance, they are described as “with no link to a transition paragraph.”

Amendments to Subtopic 820

3. Amend the title of Topic 820, with no link to a transition paragraph, as follows:

Fair Value Measurements and DisclosuresMeasurement

4. Amend paragraph 820-10-05-1, with no link to a transition paragraph, as follows:

Fair Value Measurement—Overall

Overview and Background

820-10-05-1 ~~The Fair Value Measurements and Disclosures~~ This Topic contains only the Overall Subtopic. This Subtopic does all of the following:

- a. Defines ~~{add glossary link}~~ fair value ~~{add glossary link}~~
- b. Sets out a framework for measuring fair value, which refers to ~~certain~~ valuation concepts and practices
- c. Requires ~~certain~~ disclosures about fair value measurements.

5. Add paragraphs 820-10-05-1A through 05-1D, with no link to a transition paragraph, as follows:

820-10-05-1A Fair value is 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.

820-10-05-1B For some assets and liabilities, observable market transactions or market information might be readily available. For other assets and liabilities, observable market transactions and market information might not be available. ~~Therefore~~ However, the objective of a fair value measurement is to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date (that is, an **exit price** ~~that would be received to sell from the perspective of a market participant who holds the asset or paid to transfer~~ **exit price**) at the measurement date (an **exit price**). **[Content amended as shown and moved from paragraph 820-10-35-3]** When a price for an identical asset or liability is not directly observable, a reporting entity measures fair value using another valuation technique (for example, using a quoted price for a similar asset or liability).

820-10-05-1C Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

820-10-05-1D The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. However, the ~~definition of fair value also~~ guidance in this Topic shall be applied to instruments measured at fair value that are classified in ~~stockholders'~~ shareholders' equity (see paragraph 820-10-35-18E). **[Content amended as shown and moved from paragraph 820-10-35-20]**

6. Amend paragraph 820-10-05-2, with no link to a transition paragraph, as follows:

820-10-05-2 This ~~Subtopic~~ Topic explains how to measure fair value. It does not require additional fair value measurements and is not intended to establish valuation standards.

7. Supersede paragraph 820-10-05-3 and its related heading, with a link to transition paragraph 820-10-65-8, as follows:

> Liability Issued with an Inseparable Third-Party Credit Enhancement

~~820-10-05-3 Paragraph superseded by Accounting Standards Update 2010-XX. Liabilities are often issued with credit enhancements obtained from a third party. For example, debt may be issued with a financial guarantee from a third party that guarantees the issuer's payment obligations. In this example, if the issuer of the liability fails to meet its payment obligations to the investor, the guarantor becomes obligated to make the payments on the issuer's behalf and the issuer becomes obligated to the guarantor. That guarantee is generally purchased by the issuer who then combines it with, for example, debt and then issues the combined security to an investor. By issuing debt combined with the guarantee, the issuer is able to more easily market its debt and either reduce the interest rate paid to the investor or receive higher proceeds at issuance.~~

8. Amend paragraphs 820-10-15-1, 820-10-15-2 through 15-3, and 820-10-15-5 and their related headings, with no link to a transition paragraph , as follows:

Scope and Scope Exceptions

> Overall Guidance

~~820-10-15-1~~ The Scope Section of the Overall Subtopic establishes the pervasive scope for the ~~{remove glossary link}~~**Fair Value**~~{remove glossary link}~~ ~~Measurements and Disclosures~~**Measurement** Topic. The guidance in this Topic applies to all reporting entities, transactions, and instruments ~~under~~in accordance with other ~~Subtopics~~Topics that require or permit ~~{add glossary link}~~**fair value**~~{add glossary link}~~ measurements or disclosures about fair value measurements, with specific exceptions and qualifications noted below.

> Transactions

~~820-10-15-1A~~ Paragraph not used.

> Other Considerations

> > Subtopics Not ~~Within~~within Scope

~~820-10-15-2~~ The guidance in the Fair Value ~~Measurements and Disclosures~~**Measurement** Topic does not apply as follows:

- a. ~~Under~~In accordance with accounting principles that address share-based payment transactions (see Topic 718 and Subtopic 505-50)

- b. ~~Under~~In accordance with Sections, Subtopics, or Topics that require or permit measurements that are similar to fair value but that are not intended to measure fair value, including both of the following:
 1. Sections, Subtopics, or Topics that permit measurements that are based on, or otherwise use, vendor-specific objective evidence of fair value, which include the following:
 - i. Subtopic 985-605
 - ii. Subtopic 605-25.
 2. Topic 330.
- c. ~~Under~~In accordance with accounting principles that address fair value measurements for purposes of lease classification or measurement ~~under~~in accordance with Topic 840. This scope exception does not apply to assets acquired and liabilities assumed in a business combination or an **acquisition by a not-for-profit entity** that are required to be measured at fair value ~~under~~in accordance with Topic 805, regardless of whether those assets and liabilities are related to leases.

> > Practicability Exceptions to ~~this~~This Topic

820-10-15-3 The guidance in the Fair Value Measurements—and Disclosures ~~Measurement~~Measurement Topic does not eliminate the practicability exceptions to fair value measurements in Subtopics within the scope of this Topic. Those practicability exceptions to fair value measurements in specified circumstances include, among others, those stated in the following:

- a. The use of a transaction price (an **entry price**) to measure fair value (an **exit price**) at initial recognition, including both of the following:
 1. Guarantees ~~under~~in accordance with Topic 460
 2. Subparagraph superseded by Accounting Standards Update No. 2009-16.
- b. An exemption to the requirement to measure fair value if it is not practicable to do so, including both of the following:
 1. Financial instruments ~~under~~in accordance with Subtopic 825-10
 2. Subparagraph superseded by Accounting Standards Update No. 2009-16.
- c. An exemption to the requirement to measure fair value if fair value is not reasonably determinable, such as all of the following:
 1. Nonmonetary assets ~~under~~in accordance with Topic 845 and Sections 605-20-25 and 605-20-50
 2. Asset retirement obligations ~~under~~in accordance with Subtopic 410-20 and Sections 440-10-50 and 440-10-55
 3. Restructuring obligations ~~under~~in accordance with Topic 420
 4. Participation rights ~~under~~in accordance with Subtopics 715-30 and 715-60.

- d. An exemption to the requirement to measure fair value if fair value cannot be measured with sufficient reliability (such as contributions under in accordance with Topic 958 and Subtopic 720-25).
- e. The use of certain of the measurement methods referred to in paragraph 805-20-30-10 that allow measurements other than fair value for certain assets acquired and liabilities assumed in a business combination.

>> Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-15-4 The guidance in paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall only apply to an investment that meets both of the following criteria as of the reporting entity's measurement date:

- a. The investment does not have a **readily determinable fair value**
- b. The investment is in an entity that has all of the attributes specified in paragraph 946-10-15-2 or, if one or more of the attributes specified in paragraph 946-10-15-2 are not present, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in Topic 946 (for example, certain investments in real estate funds that measure investment assets at fair value on a recurring basis).

820-10-15-5 The definition of *readily determinable fair value* indicates ~~that~~ that an equity security would have a readily determinable fair value if any one of three conditions is met. One of those conditions is that sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC. The definition notes that restricted stock meets that definition if the restriction terminates within one year. If an investment otherwise would have a readily determinable fair value, except that the investment has a restriction of greater than one year, the reporting entity shall not apply the guidance in paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A to the investment.

9. Supersede paragraphs 820-10-25-1 through 25-2 and their related heading, with no link to a transition paragraph, as follows:

Recognition

> Liability Issued with an Inseparable Third-Party Credit Enhancement

820-10-25-1 Paragraph superseded by Accounting Standards Update 2010-XX. The guidance that links to this paragraph applies to a liability issued with an inseparable third-party credit enhancement when it is measured or disclosed at fair value on a recurring basis. That guidance does not apply to any of the following instruments or transactions:

- a.—A credit enhancement provided by a government or government agency (for example, deposit insurance)
- b.—A credit enhancement provided between a parent and its subsidiary
- c.—A credit enhancement provided between entities under common control.

[Content amended and moved to paragraph 820-10-35-18B]

820-10-25-2 Paragraph superseded by Accounting Standards Update 2010-XX. The proceeds received by the issuer from the investor for a liability having the characteristics set forth in the preceding paragraph represent consideration for, and shall be allocated to, both the issued liability and the premium for the credit enhancement purchased on the investor's behalf.

10. Amend paragraphs 820-10-30-1 through 30-2, with no link to a transition paragraph, as follows:

Initial Measurement

820-10-30-1 The ~~{remove glossary link}~~fair value~~{remove glossary link}~~ measurement framework, which applies at both initial and subsequent measurement if ~~{add glossary link}~~fair value~~{add glossary link}~~ is required or permitted by other ~~Subtopics~~Topics, is discussed primarily in Section 820-10-35. This Section gives additional guidance specific to applying the framework at initial measurement.

820-10-30-2 When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price ~~represents~~is the price paid to acquire the asset or received to assume the liability (an **entry price**). In contrast, the fair value of the asset or liability ~~represents~~is the price that would be received to sell the asset or paid to transfer the liability (an **exit price**). ~~Conceptually, entry prices and exit prices are different.~~ **[Content amended and moved to paragraph 820-10-30-3]** Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

11. Amend paragraph 820-10-30-3, with a link to transition paragraph 820-10-65-8, as follows:

820-10-30-3 ~~Conceptually,~~ Although conceptually entry prices and exit prices are different, ~~different,~~ **[Content amended as shown and moved from paragraph 820-10-30-2]** In many cases, the transaction price in many cases the entry price of an asset or a liability will equal the exit price (for example, that might be the case when on the transaction date the transaction to buy an asset would take place in the market in which the asset would be sold), and, therefore, represent In such cases, the fair value of the an asset or a liability at initial recognition equals the entry (transaction) price. recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, the reporting entity shall consider factors specific to the transaction and the asset or liability. For example, a transaction price might not represent the fair value of an asset or liability at initial recognition if any of the following conditions exist:

- a. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The transaction is between related parties.~~
- b. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The transaction occurs under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.~~
- c. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction, the transaction includes unstated rights and privileges that should be separately measured, or the transaction price includes transaction costs.~~
- d. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The market in which the transaction occurs is different from the market in which the reporting entity would sell the asset or transfer the liability, that is, the principal market or most advantageous market. For example, those markets might be different if the reporting entity is a securities dealer that transacts in different markets, depending on whether the counterparty is a retail customer (retail market) or another securities dealer (interdealer market).~~ **[Content amended and moved to paragraph 820-10-30-3A]**

12. Add paragraph 820-10-30-3A, with a link to transition paragraph 820-10-65-8, as follows:

820-10-30-3A ~~When~~ When determining whether fair value at initial recognition equals the transaction price, a transaction price represents the fair value of the asset or

~~liability at initial recognition, the reporting entity shall consider~~take into account factors specific to the transaction and to the asset or liability. For example, ~~the~~a transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

- a. The transaction is between ~~related parties~~parties, ~~although the price in a related party transaction may be used as an input into a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms.~~
- b. The transaction ~~occurs~~takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
- c. The **unit of account** represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the ~~transaction~~transaction (for example, in a **business combination**), the transaction includes unstated rights and privileges that ~~should be~~are separately ~~measured,~~measured in accordance with the requirements in another Topic or the transaction price includes **transaction costs**.
- d. The market in which the transaction ~~occurs~~takes place is different from the market in which the reporting entity would sell the asset or transfer the liability, that is, the **principal market** ~~or~~(or most advantageous market-market). For example, those markets might be different if the reporting entity is a securities dealer that ~~transacts~~enters into transactions in different markets, depending on whether the counterparty is a retail customer (retail market) or another securities dealer (interdealer market) with customers in the retail market and with other securities dealers in the **dealer market**. **[Content amended as shown and moved from paragraph 820-10-30-3]**

13. Supersede paragraph 820-10-30-4, with no link to a transition paragraph, as follows:

820-10-30-4 Paragraph superseded by Accounting Standards Update 2010-XX. ~~If the transaction price represents fair value at initial recognition and a pricing model will be used to measure fair value in subsequent periods, the model shall be calibrated so that the model value at initial recognition equals the transaction price.~~**[Content amended and moved to paragraph 820-10-35-35C]**

14. Amend paragraph 820-10-30-5, with no link to a transition paragraph, as follows:

~~820-10-30-5 Example 5 (see paragraph 820-10-55-46)~~ Paragraph 820-10-55-46 illustrates situations in which the price in a transaction involving a derivative instrument might (and might not) represent the fair value of the instrument.

15. Add paragraph 820-10-30-6, with no link to a transition paragraph, as follows:

820-10-30-6 If another Topic requires or permits a reporting entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the reporting entity shall recognize the resulting gain or loss in earnings unless that Topic specifies otherwise.

16. Amend paragraphs 820-10-35-1 through 35-2, with no link to a transition paragraph, as follows:

Subsequent Measurement

820-10-35-1 The ~~{remove glossary link}~~fair value~~{remove glossary link}~~ measurement framework, which applies at both initial and subsequent measurement if ~~{add glossary link}~~fair value~~{add glossary link}~~ is required or permitted by ~~other Subtopics~~another Topic, is discussed primarily in this Section. 820-10-30 gives additional guidance specific to applying the model at initial measurement. This Section is organized as follows:

- a. Definition of fair value
- b. Valuation techniques
- c. **Inputs** to valuation techniques
- d. Fair value hierarchy.

> Definition of Fair Value

820-10-35-2 Fair value is defined in this ~~Subtopic~~Topic as the price that would be received to sell an asset or paid to transfer a liability in an ~~{add glossary link}~~orderly transaction~~{add glossary link}~~ between ~~{add glossary link}~~market participants~~{add glossary link}~~ at the measurement date. ~~This guidance is organized as follows:~~

- a. Subparagraph superseded by Accounting Standards Update 2010-XX. The price

- b. ~~Subparagraph superseded by Accounting Standards Update 2010-XX.The principal (or most advantageous) market~~
- c. ~~Subparagraph superseded by Accounting Standards Update 2010-XX.~~**Market participants**
- d. ~~Subparagraph superseded by Accounting Standards Update 2010-XX.~~Application to assets
- e. ~~Subparagraph superseded by Accounting Standards Update 2010-XX.~~Application to liabilities
- f. ~~Subparagraph superseded by Accounting Standards Update 2010-XX.~~The asset or liability. **[Content amended and moved to paragraph 820-10-35-2A]**

17. Add paragraphs 820-10-35-2A through 35-2E and their related heading, with no link to a transition paragraph, as follows:

820-10-35-2A This guidance is organized as follows:

- a. ~~The price~~asset or liability
- b. ~~The principal (or most advantageous) market~~transaction
- c. ~~{remove glossary link}~~**Market participants**~~{remove glossary link}~~
- d. ~~Application to assets~~The price
- e. ~~Application to liabilities~~nonfinancial assets
- f. ~~The asset or liability.~~Application to liabilities
- g. ~~Application to instruments classified in a reporting entity's shareholders' equity~~
- h. ~~Application to financial instruments.~~**[Content amended as shown and moved from paragraph 820-10-35-2]**

>> The Asset or Liability

820-10-35-2B A fair value measurement is for a particular asset or liability. Therefore, ~~the measurement should consider the attributes specific to the asset or liability, for example: when measuring fair value, a reporting entity shall take into account the characteristics of the asset or liability if market participants would take into account those characteristics when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:~~

- a. ~~The condition and/or~~and location of ~~the an~~ asset or liability
- b. ~~Restrictions, if any, on the sale or use of the an asset—at the measurement date.~~ **[Content amended as shown and moved from paragraph 820-10-35-19]**

~~The effect on a fair value measurement of a restriction on the sale or use of an asset by a reporting entity. The effect on the measurement arising from a particular characteristic will differ depending on whether the restriction that characteristic would be considered taken into account by market participants in pricing the asset. Example 6 (see paragraph 820-10-55-54). Paragraph 820-10-55-51 illustrates a restriction's effect on fair value measurement. [Content amended as shown and moved from paragraph 820-10-35-15]~~

820-10-35-2C The asset or liability measured at fair value might be either of the following:

- a. A standalone asset or liability (for example, a **{add glossary link}** financial instrument **{add glossary link}** or an operating asset)
- b. A group of assets ~~and/or, a group of liabilities, or a group of assets and liabilities~~ (for example, ~~an asset group,~~ a reporting unit, unit or a business). **[Content amended as shown and moved from paragraph 820-10-35-21]**

820-10-35-2D Whether the asset or liability is a standalone asset or ~~liability~~ liability, or a group of ~~assets and/or assets,~~ a group of liabilities, or a group of assets and liabilities depends on its **unit of account**. The unit of account for the asset or liability shall be determined in accordance with the ~~provisions of requirements in other accounting principles, Topics,~~ provisions of requirements in other accounting principles, Topics, except as ~~provided~~ specified in paragraph 820-10-35-44. **[Content amended as shown and moved from paragraph 820-10-35-22]**

820-10-35-2E ~~Example 6 (see paragraph 820-10-55-54). Paragraph 820-10-55-51 illustrates a restriction's effect on fair value measurement. [Content amended as shown and moved from paragraph 820-10-35-23]~~

18. Amend paragraph 820-10-35-3 and its related heading, with no link to a transition paragraph, as follows:

>> The Price

> > The Transaction

820-10-35-3 A fair value measurement assumes that the asset or liability is exchanged in an **{remove glossary link}** orderly transaction **{remove glossary link}** between market participants to sell the asset or transfer the liability at the measurement date. ~~The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the~~

~~perspective of a market participant that holds the asset or owes the liability. [Content amended and moved to paragraph 820-10-35-6C] Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). [Content amended and moved to paragraph 820-10-05-1B]~~

19. Supersede paragraph 820-10-35-4, with no link to a transition paragraph, as follows:

~~**820-10-35-4** Paragraph superseded by Accounting Standards Update 2010-XX. As discussed in paragraph 820-10-30-4, if the transaction price represents fair value at initial recognition and a pricing model will be used to measure fair value in subsequent periods, the model should be calibrated so that the model value at initial recognition equals the transaction price.~~

20. Amend paragraph 820-10-35-5 and its related heading, with a link to transition paragraph 820-10-65-8, as follows:

>> The Principal (or Most Advantageous) Market

820-10-35-5 A fair value measurement assumes that the transaction to sell the asset or transfer the liability either:

- a. ~~Occurs~~Takes place in the **principal market** for the asset or liability
- b. In the absence of a principal market, ~~occurs~~takes place in the **most advantageous market** for the asset or liability.

~~In either case, the principal (or most advantageous) market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities. [Content amended and moved to paragraph 820-10-35-6A]~~

21. Add paragraph 820-10-35-5A, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-5A A reporting entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall not ignore information that is reasonably available. In the absence of evidence to the contrary, the market in which the reporting entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

22. Amend paragraph 820-10-35-6, with no link to a transition paragraph, as follows:

820-10-35-6 If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or ~~otherwise determined~~estimated using ~~another~~ valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

23. Add paragraphs 820-10-35-6A through 35-6C, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-6A ~~The principal (or most advantageous) market is a market the reporting entity can access at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). In either case, Therefore,~~ the principal (or most advantageous) market (and thus, market participants) ~~should~~shall be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities. **[Content amended as shown and moved from paragraph 820-10-35-5]**

820-10-35-6B ~~Although a reporting entity must be able to access the market at the measurement date, it does not need to be able to sell the particular asset or transfer the particular liability on that date to be able to measure fair value on the basis of the price in that market, for example, if there is a restriction on the sale of the asset or if there has been a significant decrease in the volume and level of activity for the asset or liability. However, the reporting entity must be able to access the market for the particular asset or liability, for example, when a restriction ceases to exist or the volume and level of activity for the asset or liability increases.~~

820-10-35-6C ~~The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date. When there is not an observable market to provide pricing information for the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability. In the absence of an actual transaction, it is necessary to take into account the characteristics of market participants who would enter into a transaction for the asset or liability.~~

24. Supersede paragraphs 820-10-35-7 through 35-8, with no link to a transition paragraph, as follows:

~~**820-10-35-7** Paragraph superseded by Accounting Standards Update 2010-XX. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for **transaction costs**. Transaction costs shall be accounted for in accordance with the provisions of other Subtopics. **[Content moved to paragraph 820-10-35-9B]**~~

~~**820-10-35-8** Paragraph superseded by Accounting Standards Update 2010-XX. If location is an attribute of the asset or liability (as might be the case for a commodity), the price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall be adjusted for the costs, if any, that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market. **[Content amended and moved to paragraph 820-10-35-9C]**~~

25. Amend paragraph 820-10-35-9, with no link to a transition paragraph, as follows:

> > Market Participants

~~**820-10-35-9** The fair value of the an asset or a liability shall be ~~determined based on~~ measured using the assumptions that market participants would use when pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity ~~should~~ shall identify characteristics that distinguish market participants generally, considering factors specific to all of the following:~~

- a. The asset or liability
- b. The principal (or most advantageous) market for the asset or liability
- c. Market participants with whom the reporting entity would ~~transact~~ enter into a transaction in that market.

26. Add paragraphs 820-10-35-9A through 35-9C and their related heading, with no link to a transition paragraph, as follows:

> > The Price

820-10-35-9A Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date (that is, an **exit price**)

regardless of whether that price is directly observable or estimated using another valuation technique. In the absence of an observable market to provide pricing information, a reporting entity shall consider the characteristics of market participants who would enter into a transaction for the asset or liability.

820-10-35-9B The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with the provisions of requirements in other Subtopics/Topics. [Content moved from paragraph 820-10-35-7] Transaction costs are not an attribute a characteristic of the an asset or a liability; rather, they are specific to the transaction and will differ depending on how the reporting entity transacts enters into a transaction for the asset or liability. **[Content amended as shown and moved from Master Glossary]**

820-10-35-9C However, transaction/Transaction costs do not include transportation costs, the costs that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market. [Content amended as shown and moved from Master Glossary] If location is an attribute a characteristic of the asset or liability (as might be the case for a commodity), the price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall be adjusted for the costs, if any, that would be incurred to transport the asset or liability to or from that (or from) its principal (or most advantageous) market. **[Content amended as shown and moved from paragraph 820-10-35-8]**

27. Add paragraph 820-10-35-9D and amend the heading preceding it, with a link to transition paragraph 820-10-65-8, as follows:

> > Application to Nonfinancial Assets

820-10-35-9D Paragraphs 820-10-35-10 through 35-14 describe the fair value measurement of nonfinancial assets.

28. Supersede paragraph 820-10-35-10, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-10 Paragraph superseded by Accounting Standards Update 2010-XX. A fair value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. [Content amended and moved to paragraph 820-10-35-10A] Highest and best use is determined based on the use of the asset by market participants, even if the

intended use of the asset by the reporting entity is different. ~~[Content amended and moved to paragraph 820-10-35-10B]~~ The highest and best use of the asset establishes the valuation premise used to measure the fair value of the asset, specifically:

- a. ~~In use. 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 (as installed or otherwise configured for use). [Content amended and moved to paragraph 820-10-35-10D]~~ For example, that might be the case for certain nonfinancial assets.
- b. ~~In exchange. The highest and best use of the asset is in exchange if the asset would provide maximum value to market participants principally on a standalone basis. [Content amended and moved to paragraph 820-10-35-10D]~~ For example, that might be the case for a financial asset.

29. Add paragraphs 820-10-35-10A through 35-10D and their related headings, with a link to transition paragraph 820-10-65-8, as follows:

> > Highest and Best Use

820-10-35-10A A fair value measurement of a nonfinancial asset considers a market participant's ability to generate economic benefit by using the asset in its **highest and best use** or by selling it to another market participant who will use the asset in its highest and best use. The highest and best use of the asset considers the use ~~A fair value measurement assumes the **highest and best use** of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible as follows:~~ ~~at the measurement date.~~

- a. A use that is physically possible takes into account the physical characteristics of the asset that market participants would consider when pricing the asset (for example, the location or size of a property).
- b. A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would consider when pricing the asset (for example, the zoning regulations applicable to a property).
- c. A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into consideration the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to

that use. **[Content amended as shown and moved from paragraph 820-10-35-10]**

820-10-35-10B Highest and best use is determined from the perspective of based on the use of the asset by market participants, even if the intended use of the asset by the reporting entity is intends a different use. **[Content amended as shown and moved from paragraph 820-10-35-10]** However, a reporting entity's current use of an asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.

820-10-35-10C For competitive or other reasons, a reporting entity may intend not to use an acquired asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset that the reporting entity plans to use defensively by preventing others from using it. Nevertheless, the reporting entity shall measure the fair value of the asset assuming its highest and best use by market participants.

> > > Valuation Premise

820-10-35-10D The highest and best use of the a nonfinancial asset establishes the valuation premise used to measure the fair value of the asset, asset, specifically.

- a. In use. ~~The highest and best use of the an asset is in use if the asset would might provide maximum value to market participants principally through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (for example, a business).~~ **[Content amended as shown and moved from paragraph 820-10-35-10]**
 1. If the highest and best use of the asset is in use to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets as a group or with other assets and liabilities and that those assets and liabilities (that is, its complementary assets and liabilities) would be available to market participants. **[Content amended as shown and moved from paragraph 820-10-35-12]**
 2. Complementary liabilities include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group.

3. ~~Generally, assumptions~~Assumptions about the highest and best use of ~~the a nonfinancial asset should~~shall be consistent for all of the assets (for which highest and best use is relevant) of the group within which ~~it the asset~~ would be used. **[Content amended as shown and moved from paragraph 820-10-35-12]**
 - b. ~~In exchange, The highest and best use of the an asset is in exchange if the asset would~~might provide maximum value to market participants ~~principally~~ on a standalone basis. **[Content amended as shown and moved from paragraph 820-10-35-10]** If the highest and best use of the asset is to use it on a standalone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants who would use the asset on a standalone basis.

30. Amend paragraph 820-10-35-11, with no link to a transition paragraph, as follows:

820-10-35-11 ~~Because the highest and best use of the asset is determined based on the basis of its use by market participants, the fair value measurement considers fair value reflects the assumptions that market participants would use in when pricing the asset, whether using an in-use or an in-exchange valuation premise, the asset is used in combination with other assets or with other assets and liabilities or is used on a standalone basis.~~

31. Add paragraph 820-10-35-11A, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-11A A fair value measurement assumes that the asset is sold consistent with the unit of account specified in other Topics (which may be an individual asset), not necessarily as part of a group of assets or a business. However, the~~The fair value of an asset in-use used in combination with other assets or with other assets and liabilities is determined on the basis of~~based on the use of the asset together with other assets as a group its complementary assets and liabilities (consistent with its highest and best use from the perspective of market participants), even if the asset that is the subject of the measurement is aggregated (or disaggregated) or disaggregated at a different level for purposes of applying other guidance when applying other Topics. **[Content amended as shown and moved from paragraph 820-10-35-12]**

32. Supersede paragraphs 820-10-35-12 through 35-13, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-12 ~~Paragraph superseded by Accounting Standards Update 2010-XX. If the highest and best use of the asset is in-use, the fair value of the asset shall be measured using an in-use valuation premise. When using an in-use valuation premise, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets as a group and that those assets would be available to market participants. [Content amended and moved to paragraph 820-10-35-10D(a)(1)] Generally, assumptions about the highest and best use of the asset should be consistent for all of the assets of the group within which it would be used. [Content amended and moved to paragraph 820-10-35-10D(a)(3)] The fair value of an asset in-use is determined based on the use of the asset together with other assets as a group (consistent with its highest and best use from the perspective of market participants), even if the asset that is the subject of the measurement is aggregated (or disaggregated) at a different level for purposes of applying other guidance. [Content amended and moved to paragraph 820-10-35-11A]~~

820-10-35-13 ~~Paragraph superseded by Accounting Standards Update 2010-XX. If the highest and best use of the asset is in-exchange, the fair value of the asset shall be measured using an in-exchange valuation premise. When using an in-exchange valuation premise, the fair value of the asset is determined based on the price that would be received in a current transaction to sell the asset standalone.~~

33. Amend paragraph 820-10-35-14, with no link to a transition paragraph, as follows:

820-10-35-14 ~~Example 1 (see paragraph 820-10-55-25) Paragraph 820-10-55-25 illustrates the valuation premise of highest and best use.~~

34. Supersede paragraph 820-10-35-15, with no link to a transition paragraph, as follows:

820-10-35-15 ~~Paragraph superseded by Accounting Standards Update 2010-XX. The effect on a fair value measurement of a restriction on the sale or use of an asset by a reporting entity will differ depending on whether the restriction would be considered by market participants in pricing the asset. Example 6 (see paragraph 820-10-55-51) illustrates a restriction's effect on fair value measurement. [Content amended and moved to paragraph 820-10-35-2B]~~

820-10-35-15A Paragraph not used.

35. Add paragraph 820-10-35-15B, with no link to a transition paragraph, as follows:

> > Application to Liabilities

820-10-35-15B Paragraphs 820-10-35-16 through 35-18D describe the fair value measurement of financial and nonfinancial liabilities.

36. Amend paragraphs 820-10-35-16 through 35-16D and add their related heading, with no link to a transition paragraph, as follows:

> > > General Principles

820-10-35-16 A fair value measurement assumes ~~both of the following that:~~

- a. The liability, whether it is a financial liability or a nonfinancial liability, is transferred to a market participant at the measurement date (the liability to the counterparty continues; it is not settled)(that is, the liability would continue and the market participant transferee would be required to fulfill the obligation; it would not be settled with the counterparty or otherwise extinguished on the measurement date).
- b. Subparagraph superseded by Accounting Standards Update 2010-XX. The **nonperformance risk** relating to that liability is the same before and after its transfer. [Content amended and moved to paragraph 820-10-35-17]

820-10-35-16A ~~A fair value measurement assumes that a liability is exchanged in an orderly transaction between market participants. However, liabilities are rarely transferred in the marketplace because of contractual or other legal restrictions preventing the transfer of liabilities. Some liabilities (for example, debt obligations), however, are traded in the marketplace as assets. In many cases, there will not be an observable market to provide pricing information for the transfer of a liability because there are often contractual or other legal restrictions preventing the transfer of a liability. However, in some cases, a liability (for example, a debt obligation) is held by another entity as an asset.~~

820-10-35-16B ~~When a quoted price in an {add glossary link} active market {add glossary link} for the transfer of the identical liability is not available, it represents a Level 1 measurement. In circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity shall~~

measure fair value using one or more of the following techniques: the fair value of the liability as follows:

- a. Subparagraph superseded by Accounting Standards Update 2010-XX. A valuation technique that uses:
 1. Subparagraph superseded by Accounting Standards Update 2010-XX. The quoted price of the identical liability when traded as an asset
 2. Subparagraph superseded by Accounting Standards Update 2010-XX. Quoted prices for similar liabilities or similar liabilities when traded as assets.
- b. Subparagraph superseded by Accounting Standards Update 2010-XX. Another valuation technique that is consistent with the principles of this Topic. Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.
- c. Using the quoted price in an active market for the identical liability held by another entity as an asset, if that price is available
- d. If that price is not available, using other **observable inputs**, such as the quoted price in a market that is not active for the identical liability held by another entity as an asset or quoted prices for similar liabilities or similar liabilities held by other entities as assets.
- e. If observable inputs are not available, using another valuation technique, such as:
 1. An income approach (for example, a present value technique that takes into account the future cash outflows that market participants would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation, as described in paragraph 820-10-35-16H through 35-16I)
 2. A market approach (for example, using the amount that a market participant would pay to transfer the identical liability or would receive to enter into the identical liability, as described in paragraph 820-10-35-16J).

820-10-35-16C In all instances, the cases, a reporting entity shall maximize the use of relevant observable inputs and minimize the use of {add glossary link}unobservable inputs{add glossary link}. Furthermore, a reporting entity shall apply all applicable guidance in this Topic in determining when measuring fair value when the volume and level of activity for an asset or a liability have significantly decreased and in when identifying transactions that are not orderly.

820-10-35-16D ~~When measuring the fair value of a liability using the quoted price of the liability when traded as an asset, the reporting entity shall not adjust the quoted price of the asset for the effect of a restriction preventing its sale. [Content amended and moved to paragraph 820-10-35-16DD] However, A reporting entity shall adjust the quoted price of the liability when traded a liability held by another entity as an asset shall be adjusted for factors specific to the asset that are not applicable to the fair value measurement of the liability. Some circumstances in which a reporting entity shall consider whether factors that may indicate that the quoted price of the asset should be adjusted include the following:~~

- a. The quoted price for the asset relates to a similar (but not identical) liability ~~traded as an asset held as an asset~~ (for example, if the liability has a credit quality different from that reflected in the fair value of a similar liability held as an asset).
- b. The unit of account for the asset is not the same as for the liability (for example, the quoted price for the asset includes the effect of a third-party credit enhancement). See ~~paragraph paragraphs~~ 820-10-35-18A through 35-18B for further guidance.

37. Add paragraph 820-10-35-16DD, with no link to a transition paragraph, as follows:

820-10-35-16DD However, in the absence of factors that indicate that the quoted price of the asset should be adjusted (such as those listed in paragraph 820-10-35-16D), when ~~When~~ measuring the fair value of a liability using the quoted price of the liability ~~when traded~~ held by another entity as an asset, ~~the~~ reporting entity shall not adjust the ~~quoted~~ price of the asset for the effect of a restriction preventing ~~its sale~~ the sale of that asset. **[Content amended as shown and moved from paragraph 820-10-35-16D]**

38. Supersede paragraphs 820-10-35-16E through 35-16F, with no link to a transition paragraph, as follows:

820-10-35-16E Paragraph superseded by Accounting Standards Update 2010-XX. ~~When estimating the fair value of a liability, a reporting entity shall not include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability (see paragraphs 820-10-55-74 through 55-76). The effect of a restriction that prevents the transfer of a liability is either implicitly or explicitly already included in the other inputs to the fair value measurement. [Content amended and moved to paragraph 820-10-35-18C] For example, at the transaction date, both the creditor and the obligor are willing to accept the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the~~

~~restriction already being included in the transaction price, a separate input or adjustment to an existing input into the fair value measurement of a liability is not required at the transaction date to reflect the effect of the restriction on transfer. Additionally, a separate input or adjustment to other inputs into the fair value measurement of a liability is not required at subsequent measurement dates to reflect the effect of the restriction on transfer. [Content moved to paragraph 820-10-35-18D]~~

~~**820-10-35-16F** Paragraph superseded by Accounting Standards Update 2010-XX. In addition, there are two fundamental differences between the fair value measurement of an asset and a liability that justify different treatments for asset restrictions and for liability restrictions. First, restrictions on the transfer of a liability relate to performance under the obligation (that is, the reporting entity is legally obligated to satisfy the obligation and needs to do something to be relieved of the obligation), whereas restrictions on the transfer of an asset relate to the marketability of the asset. Second, virtually all liabilities include a restriction preventing the transfer of the liability, whereas most assets do not include a similar restriction. As a result, the effect of a restriction preventing the transfer of a liability would, theoretically, be consistent for all liabilities. However, the inclusion of a restriction preventing the sale of the asset typically results in a lower fair value for the restricted asset versus the nonrestricted asset, all other factors being equal.~~

39. Amend paragraph 820-10-35-16G, with a link to transition paragraph 820-10-35-8, as follows:

~~**820-10-35-16G** When observable inputs are not available and a reporting entity ~~measures~~ measuring the fair value of a liability using ~~another~~ valuation technique, a reporting entity shall ensure that the fair value measurement is consistent with the principles of this Topic, that is, the price that would be paid to transfer a liability in objective of a fair value measurement, that is, to estimate the price at which an orderly transaction to transfer the liability would take place between market participants at the measurement date. For example, when using a technique based on the amount at the measurement date that the reporting entity would receive to enter into the identical liability (see paragraph 820-10-35-16B), the inputs shall reflect the assumptions that market participants would use (or the reporting entity's own assumption about the assumptions that market participants would use) in the principal or most advantageous market for issuance of a liability with the same contractual terms. [Content amended and moved to paragraph 820-10-35-16J]~~

40. Add paragraphs 820-10-35-16H through 35-16J, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-16H When using a present value technique (see paragraph 820-10-35-16B(e)(1)), a reporting entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include the direct and indirect costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for undertaking the activity (that is, the value of fulfilling the obligation; for example, by using resources that could be used otherwise) and for assuming the risk associated with the obligation (that is, the risk that the actual cash outflows ultimately might differ from the expected cash outflows).

820-10-35-16I That compensation might be reflected in the fair value of a liability in different ways. For example:

- a. A financial liability contains a contractual rate of return reflecting both the compensation for undertaking the activity and the compensation for assuming the risk associated with the obligation at inception. At the measurement date, a reporting entity shall determine whether the contractual rate of return reflects the compensation market participants would require for taking on the obligation (that is, for undertaking the activity and for assuming the risk associated with the obligation).
- b. A nonfinancial liability does not contain a contractual rate of return and there is no observable market yield for such liabilities. Therefore, a reporting entity shall estimate the return market participants would require for undertaking the activity and for assuming the risk associated with the obligation. In some cases, those components will be indistinguishable from one another (for example, when using the price a third-party contractor would charge on a fixed fee basis). In other cases, a reporting entity needs to estimate them separately (for example, when using the price a third-party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

820-10-35-16J ~~For example, when~~When using a valuation technique based on that takes into account the amount at the measurement date that the reporting entity would receive to enter into the identical liability (see paragraph 820-10-35-46B820-10-35-16B(e)(2)), the inputs shall reflect the assumptions that market participants would use (or the reporting entity's own assumption about the assumptions that market participants would use)when pricing the identical liability in the principal or most advantageous market for issuance of(or most

advantageous) market for issuing a liability with the same contractual terms.
[Content amended as shown and moved from paragraph 820-10-35-16G]

41. Amend paragraphs 820-10-35-17 through 35-18A, add a related heading, and supersede a related heading, with no link to a transition paragraph, as follows:

>>> Nonperformance Risk

820-10-35-17 ~~The fair value of the liability shall reflect the nonperformance risk relating to that liability.~~ a liability reflects the effect of nonperformance risk. Nonperformance risk includes, but may not be limited to, a reporting entity's own credit risk. The nonperformance risk relating to that liability is ~~Nonperformance risk is assumed to be the same before and after its transfer.~~ the transfer of the liability. **[Content amended as shown and moved from paragraph 820-10-35-16]**

820-10-35-18 ~~When measuring the fair value of a liability, a~~ The reporting entity shall consider the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will not be fulfilled, on the fair value of the liability in all periods in which the liability is measured at fair value. ~~That effect may differ depending on the liability, for example:~~

- a. Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a nonfinancial liability)
- b. The terms of credit enhancements related to the liability, if any.

~~Example 7 (see paragraph 820-10-55-56)~~ Paragraph 820-10-55-56 illustrates the effect of credit risk on fair value measurement of a liability.

>>> Liability Issued with an Inseparable Third-Party Credit Enhancement

820-10-35-18A The issuer of a ~~{add glossary link}~~ liability with an inseparable third-party credit enhancement ~~{add glossary link}~~ the characteristics set forth in paragraph 820-10-25-4 shall not include the effect of the credit enhancement in the fair value measurement of the ~~liability.~~ liability. For the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit enhancement. This paragraph does not apply to the holder of the issuer's credit-enhanced liability.

42. Add paragraphs 820-10-35-18B through 35-18D and related heading, with no link to a transition paragraph, as follows:

820-10-35-18B ~~That~~The guidance in the preceding paragraph does not apply to any of the following instruments or transactions:

- a. A credit enhancement provided by a government or government agency (for example, deposit insurance)
- b. A credit enhancement provided between a parent and its subsidiary
- c. A credit enhancement provided between entities under common control. **[Content amended as shown and moved from paragraph 820-10-25-1]**

> > Restriction Preventing the Transfer of a Liability

820-10-35-18C ~~When estimating~~measuring the fair value of a liability, a reporting entity shall not include a separate input or an adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ~~liability~~ (see paragraphs ~~820-10-55-71 through 55-76~~). The effect of a restriction that prevents the transfer of a liability would have been either implicitly or explicitly already included in the other inputs to the fair value measurement. **[Content amended as shown and moved from paragraph 820-10-35-16E]**

820-10-35-18D For example, at the transaction date, both the creditor and the obligor are willing to accept the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction already being included in the transaction price, a separate input or adjustment to an existing input into the fair value measurement of a liability is not required at the transaction date to reflect the effect of the restriction on transfer. Additionally, a separate input or adjustment to other inputs into the fair value measurement of a liability is not required at subsequent measurement dates to reflect the effect of the restriction on transfer. **[Content moved from paragraph 820-10-35-16E]**

43. Add paragraph 820-10-35-18E and its related heading, with a link to transition paragraph 820-10-65-8, as follows:

> > Application to Instruments Classified in a Reporting Entity's Shareholders' Equity

820-10-35-18E As with assets and liabilities, the objective of a fair value measurement of an instrument classified in a reporting entity's shareholders' equity (for example, equity interests issued as consideration in a business

combination) is to estimate an exit price from the perspective of a market participant who holds the instrument as an asset at the measurement date.

44. Add paragraphs 820-10-35-18F through 35-18H and their related heading and subordinate the heading preceding paragraph 820-10-35-18G, with no link to a transition paragraph, as follows:

> > Application to Financial Instruments

820-10-35-18F Paragraphs 820-10-35-18G through 35-18N describe the fair value measurement of **financial assets** and **financial liabilities** (and derivatives that the reporting entity is required to or has elected to measure at fair value in accordance with the guidance in Topic 815 or Topic 825).

> > ≥ Inputs Based on Bid and Ask Prices

820-10-35-18G If an input used to measure fair value (see paragraphs 820-10-35-36 through 35-36D) ~~is based on bid and ask prices~~ has a bid price and an ask price (for example, in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where ~~in the fair value hierarchy~~ the input falls ~~is categorized within the fair value hierarchy (that is, Level 1, 2, or 3; see paragraphs 820-10-35-37 through 35-54A)~~. The use of bid prices for long positions (assets) and ask prices for short positions (liabilities) is permitted but not required. **[Content amended as shown and moved from paragraph 820-10-35-56]**

820-10-35-18H This ~~Subtopic~~ **Topic** does not preclude the use of mid-market pricing or other pricing conventions ~~used by market participants as a practical expedient for fair value measurements within a bid-ask spread. Bid-ask spread pricing methods appropriate under Securities and Exchange Commission (SEC) Accounting Series Release No. 118, Accounting for Investment Securities by Registered Investment Companies, are appropriate under this Subtopic.~~ **[Content amended as shown and moved from paragraph 820-10-35-57]**

45. Add paragraphs 820-10-35-18I through 35-18N and their related heading, with a link to transition paragraph 820-10-65-8, as follows:

> > > Measuring the Fair Value of Financial Assets and Financial Liabilities When a Reporting Entity Has Offsetting Positions in Market Risks or Counterparty Credit Risk

820-10-35-18I A reporting entity that holds a group of financial assets and financial liabilities is exposed to **market risks** (that is, **interest rate risk, currency risk, or other price risk**) and to the credit risk of each of the counterparties. When the reporting entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either of those risks, the reporting entity is permitted to apply an exception to the requirements in this Topic for measuring fair value. That exception permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

820-10-35-18J A reporting entity is permitted to use that exception if the reporting entity does all of the following:

- a. Manages the group of financial assets and financial liabilities on the basis of the reporting entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the reporting entity's documented risk management or investment strategy
- b. Provides information on that basis about the group of financial assets and financial liabilities to the reporting entity's **management** (for example, the reporting entity's board of directors or chief executive officer)
- c. Manages the net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in a consistent manner from period to period
- d. Is required to or has elected to measure the financial assets and financial liabilities at fair value in the statement of financial position at each reporting date.

820-10-35-18K When using the exception in paragraph 820-10-35-18I to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the reporting entity's net exposure to a particular market risk (or risks), the reporting entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the reporting entity's net exposure to those market risks. When that exception is applied to measure the fair value of a group of financial assets and financial liabilities, the market risks that are being offset shall be substantially the same.

820-10-35-18L When using the exception in paragraph 820-10-35-18I to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the reporting entity shall include the

effect of the reporting entity's net exposure to the credit risk of that counterparty in the fair value measurement when there is a legally enforceable right to set off one or more financial assets and financial liabilities with the counterparty in the event of default (for example, because the reporting entity has entered into a master netting agreement with that counterparty). If the reporting entity has a net short position (that is, the reporting entity owes the counterparty), the reporting entity shall apply such an adjustment on the basis of its own credit risk. If the reporting entity has a net long position (that is, the counterparty owes the reporting entity), the reporting entity shall apply an adjustment on the basis of the counterparty's credit risk.

820-10-35-18M If there is a quoted price in an active market (that is, a Level 1 input) for a financial asset or a financial liability within a group of financial assets and financial liabilities, a reporting entity shall use that quoted price without adjustment when measuring fair value, except as specified in paragraph 820-10-35-41C.

820-10-35-18N The exception in paragraph 820-10-35-18I does not apply to financial statement presentation. A reporting entity shall comply with the financial statement presentation requirements specified in other Topics.

46. Supersede paragraphs 820-10-35-19 through 35-27 and their related heading, with no link to a transition paragraph, as follows:

>> The Asset or Liability

820-10-35-19 Paragraph superseded by Accounting Standards Update 2010-XX. A fair value measurement is for a particular asset or liability. Therefore, the measurement should consider attributes specific to the asset or liability, for example:

- a. The condition and/or location of the asset or liability
- b. Restrictions, if any, on the sale or use of the asset at the measurement date. **[Content amended and moved to paragraph 820-10-35-2B]**

820-10-35-20 Paragraph superseded by Accounting Standards Update 2010-XX. The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. However, the definition of fair value also shall be applied to instruments measured at fair value that are classified in stockholders' equity. **[Content amended and moved to paragraph 820-10-05-1D]**

820-10-35-21 Paragraph superseded by Accounting Standards Update 2010-XX. The asset or liability might be either of the following:

- a. ~~A standalone asset or liability (for example, a financial instrument or an operating asset)~~
- b. ~~A group of assets and/or liabilities (for example, an asset group, a reporting unit, or a business).~~ **[Content amended and moved to paragraph 820-10-35-2C]**

820-10-35-22 Paragraph superseded by Accounting Standards Update 2010-XX. Whether the asset or liability is a standalone asset or liability or a group of assets and/or liabilities depends on its **unit of account**. The unit of account for the asset or liability shall be determined in accordance with the provisions of other accounting principles, except as provided in paragraph 820-10-35-44. **[Content amended and moved to paragraph 820-10-35-2D]**

820-10-35-23 Paragraph superseded by Accounting Standards Update 2010-XX. Example 6 (see paragraph 820-10-55-51) illustrates a restriction's effect on fair value measurement. **[Content amended and moved to paragraph 820-10-35-2E]**

> Valuation Techniques

820-10-35-24 Paragraph superseded by Accounting Standards Update 2010-XX. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available shall be used to measure fair value. **[Content amended and moved to paragraph 820-10-35-35A]** In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an **active market** for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (for example, as might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. Example 3 (see paragraph 820-10-55-35) illustrates the use of multiple valuation techniques. **[Content amended and moved to paragraph 820-10-35-35B]**

820-10-35-25 Paragraph superseded by Accounting Standards Update 2010-XX. Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (for example, a change in its weighting when multiple valuation techniques are used) is appropriate if the change results in a measurement that is equally or more

~~representative of fair value in the circumstances. That might be the case if, for example, if any of the following events occur:~~

- ~~a. New markets develop.~~
- ~~b. New information becomes available.~~
- ~~c. Information previously used is no longer available.~~
- ~~d. Valuation techniques improve. [Content amended and moved to paragraph 820-10-35-35D]~~

~~**820-10-35-26** Paragraph superseded by Accounting Standards Update 2010-XX. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. (See paragraph 250-10-45-17. Also, paragraph 250-10-50-5 explains that the disclosure provisions of Topic 250 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.) [Content moved to paragraph 820-10-35-35E]~~

~~**820-10-35-27** Paragraph superseded by Accounting Standards Update 2010-XX. The Examples in Section 820-10-55 illustrate, in qualitative terms, the judgments a reporting entity that measures assets and/or liabilities at fair value might apply in varying valuation situations. [Content moved to paragraph 820-10-35-35F]~~

47. Amend paragraphs 820-10-35-28 through 35-35, with no link to a transition paragraph, as follows:

820-10-35-28 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date. Valuation techniques consistent with the **market approach**, **income approach**, and/or **cost approach** shall be used to measure fair value. The definitions and keymain aspects of those approaches ~~follow~~are summarized below.

> > Market Approach

~~**820-10-35-29** The market approach is defined in this Subtopic as a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets or liabilities (including a business).~~

~~**820-10-35-30** For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might liebe in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple ~~falls~~within the range~~

requires judgment, considering qualitative and quantitative factors specific to the measurement (~~qualitative and quantitative~~).

820-10-35-31 Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value various types of financial instruments such as debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

> > Income Approach

820-10-35-32 The income approach is ~~defined in this Subtopic as an approach that~~ uses valuation techniques to convert future amounts (for example, cash flows or ~~earnings~~income and expenses) to a single present (discounted) amount (~~discounted~~). The fair value measurement is ~~based~~determined on the basis of the value indicated by current market expectations about those future amounts.

820-10-35-33 Those valuation techniques include the following:

- a. **Present value** techniques
- b. Option-pricing models (~~which incorporate present value techniques~~), such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques and reflect both the time value and the intrinsic value of an option
- c. The multiperiod excess earnings method, which is used to measure the fair value of ~~certain~~some intangible assets.

> > Cost Approach

820-10-35-34 The cost approach is ~~defined in this Subtopic as a valuation technique based on~~reflects the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost).

820-10-35-35 From the perspective of a market participant (seller), the price that would be received for the asset is ~~determined~~ based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for ~~{remove glossary link}~~obsolescence~~{remove glossary link}~~. That is because a market participant would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence and is broader than

depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (based on specified service lives). **[Content moved from Master Glossary]** The current replacement cost method is often used to measure the fair value of tangible assets used in combination with other assets or with other assets and liabilities.

48. Add paragraphs 820-10-35-35A through 35-35F and their related heading, with no link to a transition paragraph, as follows:

> > General Principles

820-10-35-35A A reporting entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available ~~shall be used to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.~~ [Content amended as shown and moved from paragraph 820-10-35-24]

820-10-35-35B In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or a liability using quoted prices in an ~~(remove glossary link)~~ active market~~(remove glossary link)~~ for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (for example, as might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. ~~Example 3 (see paragraph 820-10-55-35)~~ Paragraph 820-10-55-35 illustrates the use of multiple valuation techniques. [Content amended as shown and moved from paragraph 820-10-35-24]

820-10-35-35C If the transaction price represents fair value at initial recognition and a ~~pricing model~~ valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the ~~model~~ valuation technique shall be calibrated so that ~~the model value~~ at initial recognition it equals the transaction price. [Content amended as shown and moved from paragraph 820-10-30-4] Calibration ensures that the valuation technique reflects current market conditions and helps a reporting entity to determine whether an adjustment to the valuation technique is necessary (for example, there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique that uses unobservable inputs, a reporting entity should calibrate the valuation technique(s) used to observable market data (for example, the price for a similar asset or liability).

820-10-35-35D Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (for example, a change in its weighting when multiple valuation techniques are ~~used~~used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, if any of the following events ~~occur~~take place:

- a. New markets develop.
- b. New information becomes available.
- c. Information previously used is no longer available.
- d. Valuation techniques improve.
- e. Market conditions change. **[Content amended as shown and moved from paragraph 820-10-35-25]**

820-10-35-35E Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. (See paragraph 250-10-45-17. Also, paragraph 250-10-50-5 explains that the disclosure ~~provisions of requirements in~~ Topic 250 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.) **[Content amended as shown and moved from paragraph 820-10-35-26]**

820-10-35-35F The Examples in Section 820-10-55 illustrate, in qualitative terms, the judgments a reporting entity that measures assets and/or liabilities at fair value might apply in ~~varying different~~ valuation situations. **[Content amended as shown and moved from paragraph 820-10-35-27]**

49. Amend paragraph 820-10-35-36, with no link to a transition paragraph, as follows:

> Inputs to Valuation Techniques

820-10-35-36 Valuation techniques used to measure fair value shall maximize the use of relevant ~~{remove glossary link}~~**observable inputs**~~{remove glossary link}~~ (that is, Level 1 and Level 2 inputs that do not require significant adjustment) and minimize the use of ~~{remove glossary link}~~**unobservable inputs**~~{remove glossary link}~~. Examples of markets in which inputs might be observable for some assets and liabilities (for example, financial instruments) include **exchange markets, dealer markets, brokered markets, and principal-to-principal markets.**

50. Add paragraphs 820-10-35-36A through 35-36D and related heading, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-36A In some cases, a reporting entity may determine that observable inputs require significant adjustment using unobservable data and, thus, the fair value measurement would be categorized within a lower level of the fair value hierarchy. For example, the reporting entity may determine that an income approach valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs is equally representative of fair value as (or more representative of fair value than) a market approach valuation technique that would require significant adjustments using unobservable inputs.

> > Application of Blockage Factors and Other Premiums and Discounts

820-10-35-36B The selection of inputs to a valuation technique depends on the unit of account, as specified in other Topics, for the asset or liability being measured at fair value. In some cases, a reporting entity shall apply a premium or a discount (for example, a control premium or a noncontrolling interest discount) if market participants would consider such a premium or discount when pricing the asset or liability given the unit of account specified in another Topic. A reporting entity shall apply a control premium when measuring the fair value of a controlling interest in another entity when another Topic specifies that the unit of account is the controlling interest and the reporting entity determines that market participants would consider such a premium when pricing that controlling interest.

820-10-35-36C If a reporting entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and uses a quoted price for the asset or liability (or similar assets or liabilities) as an input into a fair value measurement, the quoted price for the asset or liability shall not be adjusted because of the size of the position relative to trading volume (commonly referred to as a blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the ~~position~~ asset or liability in a single transaction might affect the quoted price. [Content amended as shown and moved from paragraph 820-10-35-44] A blockage factor is not relevant and, therefore, shall not be used when fair value is measured using a valuation technique that does not use a quoted price for the asset or liability (or similar assets or liabilities).

820-10-35-36D If there is a quoted price in an active market (that is, a Level 1 input) for an asset or a liability, a reporting entity shall use that quoted price without adjustment when measuring fair value, except as specified in paragraph 820-10-35-41C.

51. Amend paragraphs 820-10-35-37 through 35-38, with no link to a transition paragraph, as follows:

> Fair Value Hierarchy

820-10-35-37 To increase consistency and comparability in fair value measurements and related disclosures, this Topic establishes ~~at~~ the fair value hierarchy ~~that prioritizes into three levels (see paragraphs 820-10-35-40 through 35-54A)~~ the inputs to valuation techniques used to measure fair value ~~into three broad levels~~. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (~~{add glossary link}~~Level 1 ~~inputs~~{add glossary link}) and the lowest priority to unobservable inputs (~~{add glossary link}~~Level 3 ~~inputs~~{add glossary link}). In some cases, the inputs used to measure the fair value of an asset or a liability might ~~fall in~~ be categorized within different levels of the fair value hierarchy. ~~The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety falls shall be determined based on~~ the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement~~fair value measurement in its entirety~~. Assessing the significance of a particular input to the entire measurement~~fair value measurement in its entirety~~ requires judgment, considering factors specific to the asset or liability.

820-10-35-38 The availability of relevant inputs ~~relevant to the asset or liability~~ and ~~the~~ their relative subjectivity~~reliability of the inputs~~ might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation ~~techniques~~techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might ~~fall~~ be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement in its entirety and the level ~~in~~ of the fair value hierarchy within which those inputs ~~fall~~ are categorized.

52. Add paragraph 820-10-35-38A, with no link to a transition paragraph, as follows:

820-10-35-38A If observable inputs require significant adjustment using unobservable inputs, the resulting measurement is a Level 3 measurement. For example, if a market participant would consider the effect of a restriction on the sale of an asset when estimating the price for the asset, a reporting entity shall adjust the quoted price to reflect the effect of that restriction. If the quoted price is a Level 1 input or a Level 2 input and the adjustment is significant to the entire measurement, the measurement shall be categorized within a lower level of the fair value hierarchy.

53. Supersede paragraph 820-10-35-39, with no link to a transition paragraph, as follows:

820-10-35-39 Paragraph superseded by Accounting Standards Update 2010-XX. ~~The remainder of this guidance is organized as follows:~~

- ~~a. Level 1 inputs~~
- ~~b. Level 2 inputs~~
- ~~c. Level 3 inputs~~
- ~~d. Inputs based on bid and ask prices~~
- ~~e. Investments in certain entities that calculate net asset value per share (or its equivalent, for example, member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed).~~

54. Amend paragraphs 820-10-35-40 through 35-41, with no link to a transition paragraph, as follows:

> > Level 1 Inputs

820-10-35-40 ~~Level 1 inputs are defined in this Subtopic as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to can access at the measurement date.~~

820-10-35-41 A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as specified in paragraph 820-10-35-41C. ~~discussed in paragraphs 820-10-35-16D, 820-10-35-42, and 820-10-35-43.~~

55. Supersede paragraph 820-10-35-41A, with no link to a transition paragraph, as follows:

820-10-35-41A Paragraph superseded by Accounting Standards Update 2010-XX. ~~A Level 1 fair value measurement for the liability is a quoted price in an active market for the identical liability at the measurement date. In addition, the quoted price for the identical liability when traded as an asset in an active market also is a Level 1 fair value measurement for that liability when no adjustments to the quoted price of the asset are required. However, a reporting entity needs to determine whether the quoted price for the identical liability when traded as an asset in an active market should be adjusted for factors specific to the liability and the asset (see paragraph 820-10-35-16D). Any adjustment to the quoted price of the asset shall render the fair value measurement of the liability a lower~~

level measurement. **[Content amended and moved to paragraph 820-10-35-41C]**

56. Add paragraphs 820-10-35-41B through 35-41C, with no link to a transition paragraph, as follows:

820-10-35-41B A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (for example, on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- a. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; ~~considered from the perspective of the reporting entity~~
- b. Whether the reporting entity ~~has the ability to~~ can access the price in that market for the asset or liability at the measurement date. **[Content amended as shown and moved from paragraph 820-10-35-45]**

820-10-35-41C A reporting entity shall not make an adjustment to a Level 1 input except in the following circumstances:

- a. ~~If the~~ When a reporting entity holds a large number of similar assets or liabilities (for example, debt securities) that are ~~required to be measured at fair value, value and a quoted price in an active market might be~~ available but not readily accessible for each of those assets or liabilities individually (that is, given the large number of similar assets or liabilities held by the reporting entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, a reporting entity may measure fair value ~~may be measured~~ using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) ~~as a practical expedient~~. However, the use of an alternative pricing method ~~renders the fair value measurement a lower-level measurement~~ results in a fair value measurement categorized within a lower level of the fair value hierarchy. **[Content amended as shown and moved from paragraph 820-10-35-42]**
- b. ~~In some situations,~~ When a quoted price in an active market ~~might~~ does not represent fair value at the measurement date. That might be the case if, for example, significant events (for example, transactions in a principal-to-principal transactions, market, trades in a brokered trades, market, or announcements) occur take place after the close of a market but before the measurement date. The A reporting entity ~~should~~ shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the

~~quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower-level measurement results in a fair value measurement categorized within a lower level of the fair value hierarchy. [Content amended as shown and moved from paragraph 820-10-35-43]~~

- c. ~~A Level 1 fair value measurement for the liability is a quoted price in an active market for the identical liability at the measurement date. In addition, when measuring the fair value of a liability using the quoted price for the identical liability when traded as an asset in an active market also is market, that price results in a Level 1 fair value measurement for that liability when no adjustments to the quoted price of the asset are required. However, in some cases, a reporting entity needs to determine whether the quoted price for the identical liability when traded as an asset in an active market should be adjusted may need to adjust the quoted price for the asset for factors specific to the liability and the asset (see paragraph 820-10-35-16D). Any However, any adjustment to the quoted price of the asset shall render the fair value measurement of the liability a results in a fair value measurement categorized within a lower level of the fair value hierarchy measurement. [Content amended as shown and moved from paragraph 820-10-35-41A]~~

57. Supersede paragraphs 820-10-35-42 through 35-43, with no link to a transition paragraph, as follows:

820-10-35-42 ~~Paragraph superseded by Accounting Standards Update 2010-XX. If the reporting entity holds a large number of similar assets or liabilities (for example, debt securities) that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets or liabilities individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower-level measurement. [Content amended and moved to paragraph 820-10-35-41C]~~

820-10-35-43 ~~Paragraph superseded by Accounting Standards Update 2010-XX. In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date. The reporting entity should establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment renders the fair~~

value measurement a lower level measurement. **[Content amended and moved to paragraph 820-10-35-41C]**

58. Amend paragraph 820-10-35-44, with a link to transition paragraph 820-10-65-8, as follows:

820-10-35-44 ~~If the reporting entity holds a position in a single financial instrument asset or liability (including a block position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the instrument asset or liability is traded in an active market, the fair value of the position asset or liability shall be measured within Level 1 as the product of the quoted price for the individual instrument asset or liability times the quantity held held (see paragraph 820-10-35-36B). The quoted price shall not be adjusted because of the size of the position relative to trading volume (blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.~~ **[Content amended and moved to paragraph 820-10-35-36C]**

59. Supersede paragraph 820-10-35-45, with no link to a transition paragraph, as follows:

820-10-35-45 ~~Paragraph superseded by Accounting Standards Update 2010-XX. A Level 1 input will be available for many financial assets and liabilities, some of which might be exchanged in multiple active markets (for example, on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:~~

- ~~a. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability, considered from the perspective of the reporting entity~~
- ~~b. Whether the reporting entity has the ability to access the price in that market for the asset or liability at the measurement date.~~ **[Content amended and moved to paragraph 820-10-35-41B]**

60. Amend paragraphs 820-10-35-46 through 35-48, with no link to a transition paragraph, as follows:

820-10-35-46 ~~Example 4 (see paragraph 820-10-55-42) Paragraph 820-10-55-42 illustrates the use of Level 1 inputs to measure the fair value of a financial asset that trades in multiple active markets with different prices.~~

>> Level 2 Inputs

820-10-35-47 ~~{add glossary link}~~Level 2 inputs~~{add glossary link}~~ are defined in this Subtopic as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

820-10-35-48 If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include all of the following:

- a. Quoted prices for similar assets or liabilities in active markets
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active (see paragraph 820-10-35-54C for examples of factors that may indicate that a market is not active or that there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability [or similar assets or liabilities] depending on the degree to which the factors exist)
- c. Inputs other than quoted prices that are observable for the asset or liability, for example:
 1. Interest rates and yield curves observable at commonly quoted intervals
 2. Volatilities
 3. Prepayment speeds
 4. Loss severities
 5. Credit risks
 6. Default rates.
- d. **Market-corroborated inputs.**

~~The guidance beginning in paragraph 820-10-35-51A includes example factors that may indicate a market is not active or that there has been a significant decrease in the volume and level of activity for the asset or liability when compared to normal market activity for the asset or liability (or similar assets or liabilities), depending on the degree to which the factors exist.~~

820-10-35-49 Paragraph 820-10-55-21 discusses Level 2 inputs for particular assets and liabilities.

61. Amend paragraphs 820-10-35-50 through 35-51, with no link to a transition paragraph, as follows:

820-10-35-50 Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

- a. The condition ~~and/or~~ location of the asset or liability
- b. The extent to which the inputs relate to items that are comparable to the asset or liability, including liability (including those factors ~~discussed~~ described in paragraph ~~820-10-35-16D~~820-10-35-16D)
- c. The volume and level of activity in the markets within which the inputs are observed.

820-10-35-51 An adjustment to a Level 2 input that is significant to the fair value ~~entire~~ measurement in its entirety might render the measurement a Level 3 ~~might result in a fair value measurement categorized within Level 3 of the fair value hierarchy,~~ depending on the level in the fair value hierarchy within which where the inputs used to determine the adjustment ~~fall~~ are categorized within the fair value hierarchy.

62. Supersede paragraphs 820-10-35-51A through 35-51H and their related headings, with no link to a transition paragraph, as follows:

>>> ~~Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased~~

820-10-35-51A Paragraph superseded by Accounting Standards Update 2010-XX. ~~To determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities), factors the reporting entity shall evaluate include, but are not limited to, all of the following:~~

- a. ~~There are few recent transactions.~~
- b. ~~Price quotations are not based on current information.~~
- c. ~~Price quotations vary substantially either over time or among market makers (for example, some brokered markets).~~
- d. ~~Indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.~~
- e. ~~There is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the reporting entity's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability.~~
- f. ~~There is a wide bid-ask spread or significant increase in the bid-ask spread.~~
- g. ~~There is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities.~~

- ~~h. Little information is released publicly (for example, a principal-to-principal market).~~

~~The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of the evidence, there has been a significant decrease in the volume and level of activity for the asset or liability. [Content amended and moved to paragraph 820-10-35-54C]~~

~~**820-10-35-51B** Paragraph superseded by Accounting Standards Update 2010-XX. If the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), transactions or quoted prices may not be determinative of fair value (for example, there may be increased instances of transactions that are not orderly). Further analysis of the transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with this Subtopic. Significant adjustments also may be necessary in other circumstances (for example, if a price for a similar asset requires significant adjustment to make it more comparable to the asset being measured or when the price is stale). [Content amended and moved to paragraph 820-10-35-54D]~~

~~**820-10-35-51C** Paragraph superseded by Accounting Standards Update 2010-XX. This Subtopic does not prescribe a methodology for making significant adjustments to transactions or quoted prices when estimating fair value. The guidance beginning in paragraph 820-10-35-24 discusses the use of valuation techniques in estimating fair value. [Content amended and moved to paragraph 820-10-35-54E] If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (for example, the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, the reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within that range that is most representative of fair value under current market conditions. A wide range of fair value estimates may be an indication that further analysis is needed. [Content amended and moved to paragraph 820-10-35-54F]~~

~~**820-10-35-51D** Paragraph superseded by Accounting Standards Update 2010-XX. Even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, liability, the objective of a fair value measurement remains the same. The glossary defines **fair value** as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under~~

~~current market conditions. [Content amended and moved to paragraph 820-10-35-54G] Determining the price at which willing market participants would transact at the measurement date under current market conditions if there has been a significant decrease in the volume and level of activity for the asset or liability depends on the facts and circumstances and requires the use of significant judgment. However, the reporting entity's intention to hold the asset or liability is not relevant in estimating fair value. Fair value is a market-based measurement, not an entity-specific measurement. [Content amended and moved to paragraph 820-10-35-54H]~~

~~>>> Identifying Transactions That Are Not Orderly~~

~~**820-10-35-51E** Paragraph superseded by Accounting Standards Update 2010-XX. Even if there has been a significant decrease in the volume and level of activity for the asset or liability, it is not appropriate to conclude that all transactions are not orderly (that is, distressed or forced). Circumstances that may indicate that a transaction is not orderly include, but are not limited to, all of the following:~~

- ~~a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.~~
- ~~b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.~~
- ~~c. The seller is in or near bankruptcy or receivership (that is, distressed).~~
- ~~d. The seller was required to sell to meet regulatory or legal requirements (that is, forced).~~
- ~~e. The transaction price is an outlier when compared with other recent transactions for the same or similar asset or liability.~~

~~The reporting entity shall evaluate the circumstances to determine whether the transaction is orderly based on the weight of the evidence. [Content amended and moved to paragraph 820-10-35-54I]~~

~~**820-10-35-51F** Paragraph superseded by Accounting Standards Update 2010-XX. The determination of whether a transaction is orderly (or not orderly) is more difficult if there has been a significant decrease in the volume and level of activity for the asset or liability. [Content amended and moved to paragraph 820-10-35-54H] Accordingly, the reporting entity shall consider of all of the following guidance:~~

- a. ~~If the weight of the evidence indicates the transaction is not orderly, the reporting entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price when estimating fair value or market risk premiums.~~
- b. ~~If the weight of the evidence indicates the transaction is orderly, the reporting entity shall consider that transaction price when estimating fair value or market risk premiums. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances such as all of the following:~~
 - 1. ~~The volume of the transaction~~
 - 2. ~~The comparability of the transaction to the asset or liability being measured at fair value~~
 - 3. ~~The proximity of the transaction to the measurement date.~~
- c. ~~If the reporting entity does not have sufficient information to conclude that the whether a transaction is orderly, or that the transaction is not orderly, it shall consider that transaction price when estimating fair value or market risk premiums. However, that transaction price may not be determinative of fair value (that is, that transaction price may not be the sole or primary basis for estimating fair value or market risk premiums). The reporting entity shall place less weight on transactions on which the reporting entity does not have sufficient information to conclude whether the transaction is orderly when compared with other transactions that are known to be orderly.~~

~~In its determinations, the reporting entity need not undertake all possible efforts, but shall not ignore information that is available without undue cost and effort. The reporting entity would be expected to have sufficient information to conclude whether a transaction is orderly when it is part to the transaction. [Content amended and moved to paragraph 820-10-35-54J]~~

~~**820-10-35-51G** Paragraph superseded by Accounting Standards Update 2010-XX. Regardless of the valuation technique(s) used, the reporting entity shall include appropriate risk adjustments. For related implementation guidance, see paragraph 820-10-55-8. Risk premiums shall be reflective of an orderly transaction (that is, not a forced or distressed sale) between market participants at the measurement date under current market conditions. [Content amended and moved to paragraph 820-10-35-54E]~~

>>> Quoted Prices Provided by Third Parties

~~**820-10-35-51H** Paragraph superseded by Accounting Standards Update 2010-XX. When estimating fair value, this Subtopic does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if the reporting entity has determined that the quoted prices provided by those parties~~

~~are determined in accordance with this Subtopic. [Content amended and moved to paragraph 820-10-35-54K] However, if there has been a significant decrease in the volume or level of activity for the asset or liability, the reporting entity shall evaluate whether those quoted prices are based on current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risks). In weighting a quoted price as an input to a fair value measurement, the reporting entity shall place less weight (when compared with other indications of fair value that are based on transactions) on quotes that do not reflect the result of transactions. [Content amended and moved to paragraph 820-10-35-54L] Furthermore, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) shall be considered when weighting the available evidence, with more weight given to quotes based on binding offers. [Content amended and moved to paragraph 820-10-35-54M]~~

63. Amend paragraphs 820-10-35-52 through 35-54, with no link to a transition paragraph, as follows:

> > Level 3 Inputs

820-10-35-52 Level 3 inputs are defined in this ~~Subtopic~~Topic as unobservable inputs for the asset or liability.

820-10-35-53 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant who holds the asset or owes the liability. Therefore, unobservable inputs shall reflect ~~the reporting entity's own assumptions about the~~ assumptions that market participants would use ~~in~~when pricing the asset or ~~liability~~liability, ~~(including~~including assumptions about risk)~~-risk~~.

820-10-35-54 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) ~~and/or~~and the risk inherent in the inputs to the valuation technique. A measurement ~~(for example, a mark-to-model measurement)~~ that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one ~~in~~when pricing the ~~related~~-asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (for example, when there has been a significant decrease in the volume and level of activity when compared with normal market activity for the asset or liability [or similar assets or liabilities] and the reporting entity has determined that the transaction price or quoted price

does not represent fair value, as described in paragraphs 820-10-35-54C through 35-54J).

64. Add paragraphs 820-10-35-54A through 35-54M and related headings, with no link to a transition paragraph, as follows:

820-10-35-54A ~~Unobservable inputs shall be developed based on~~ A reporting entity shall develop unobservable inputs using the best information available in the circumstances, which might include the reporting entity's own data. In developing unobservable inputs, ~~the~~ the reporting entity may begin with its own data, which shall be adjusted if reasonably available information indicates that other market participants would use different data or there is something particular to the reporting entity that is not available to other market participants (for example, an entity-specific synergy). ~~A reporting entity need not undertake all possible~~ exhaustive efforts to obtain information about market participant assumptions. However, ~~the~~ the reporting entity shall not ignore information about market participant assumptions that is reasonably available. ~~available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions. Paragraph 820-10-55-22 discusses Level 3 inputs for particular assets and liabilities. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.~~ **[Content amended as shown and moved from paragraph 820-10-35-55]**

> > Categorizing Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) within the Fair Value Hierarchy

820-10-35-54B ~~Classification~~ Categorization within the fair value hierarchy of a fair value measurement of an investment within the scope of paragraphs 820-10-15-4 through 15-5 that is measured at **net asset value per share** (or its equivalent, for example member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) requires judgment, considering the following:

- a. If a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement.
- b. If a reporting entity will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized ~~as a Level 3 fair value measurement~~ within Level 3 of the fair value hierarchy.

- c. If a reporting entity cannot redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date (for example, investments subject to a lockup or gate or investments whose redemption period does not coincide with the measurement date), the reporting entity shall consider the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment shall be categorized ~~as a Level 2 or a Level 3 fair value measurement~~ within Level 2 or Level 3 of the fair value hierarchy. For example, if the reporting entity does not know when it will have the ability to redeem the investment or it does not have the ability to redeem the investment in the near term at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized ~~as a Level 3 fair value measurement~~ within Level 3 of the fair value hierarchy. **[Content amended as shown and moved from paragraph 820-10-35-58]**

> Measuring Fair Value When the Volume and Level of Activity for an Asset or a Liability Have Significantly Decreased

~~**820-10-35-54C** To determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities), factors the reporting entity shall evaluate include, but are not limited to, all of the following: A reporting entity shall determine whether, on the basis of the evidence available, there has been a significant decrease in the volume and level of activity for the asset or liability. To make such a determination, a reporting entity shall evaluate the significance and relevance of factors such as the following:~~

- a. There are few recent transactions.
- b. Price quotations are not based on current information.
- c. Price quotations vary substantially either over time or among market makers (for example, some brokered markets).
- d. Indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
- e. There is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the reporting entity's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability.

- f. There is a wide bid-ask spread or significant increase in the bid-ask spread.
- g. There is a significant decline or absence of a market for new ~~issuances~~ issues (that is, a primary market) for the asset or liability or similar assets or liabilities.
- h. Little information is ~~released~~ publicly available (for example, for transactions that take place in a principal-to-principal market).

~~The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of the evidence, there has been a significant decrease in the volume and level of activity for the asset or liability.~~
[Content amended as shown and moved from paragraph 820-10-35-51A]

820-10-35-54D ~~If the~~ reporting entity concludes that there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), transactions or quoted prices may not be determinative of fair value (for example, there may be increased instances of transactions that are not orderly). ~~Further~~ further analysis of the transactions or quoted prices is ~~needed~~, needed. A decrease in the volume and level of activity on its own does not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if a reporting entity determines that a transaction or quoted price is not determinative of fair value (for example, there may be transactions that are not orderly), an and a significant adjustment to the transactions or quoted prices may will be necessary if the reporting entity uses those prices as a basis for measuring fair value, to estimate fair value in accordance with this Subtopic and that adjustment may be significant to the fair value measurement in its entirety. Significant adjustments Adjustments also may be necessary in other circumstances (for example, if when a price for a similar asset requires significant adjustment to make it more comparable to the asset being measured or when the price is stale). **[Content amended as shown and moved from paragraph 820-10-35-51B]**

820-10-35-54E ~~This Subtopic~~ Topic does not prescribe a methodology for making significant adjustments to transactions or quoted ~~prices~~, prices when estimating fair value. The guidance beginning in paragraph 820-10-35-24 discusses ~~See~~ paragraphs 820-10-35-24 through 35-35F for a discussion of the use of valuation techniques in estimating when measuring fair value. **[Content amended as shown and moved from paragraph 820-10-35-51C]** Regardless of the valuation technique(s) technique used, the ~~the~~ reporting entity shall include appropriate risk ~~adjustments~~, adjustments, including a risk premium reflecting the amount that risk-averse market participants would demand because of the uncertainty inherent in the cash flows of an asset or a liability (see paragraph 820-10-55-8). ~~For related implementation guidance, see paragraph 820-10-55-8.~~

~~Risk premiums shall be reflective of an orderly transaction (that is, not a forced or distressed sale) between market participants at the measurement date under current market conditions. [Content amended as shown and moved from paragraph 820-10-35-51G] Otherwise, the measurement does not faithfully represent fair value. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.~~

820-10-35-54F If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (for example, the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, ~~the~~ reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within ~~that~~ the range that is most representative of fair value under current market conditions. A wide range of fair value estimates may be an indication that further analysis is needed. **[Content amended as shown and moved from paragraph 820-10-35-51C]**

820-10-35-54G ~~Even if when there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, liability,~~ the objective of a fair value measurement remains the same. ~~The glossary defines fair value as~~ Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or ~~distressed~~ distress sale) between market participants at the measurement date under current market conditions. **[Content amended as shown and moved from paragraph 820-10-35-51D]**

820-10-35-54H ~~Determining~~ Estimating the price at which ~~willing~~ market participants would ~~transact~~ be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume and level of activity for the asset or liability depends on the facts and circumstances and requires the use of significant judgment. ~~However, the~~ A reporting entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant in ~~estimating fair value. Fair~~ when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement. **[Content amended as shown and moved from paragraph 820-10-35-51D]**

> Identifying Transactions That Are Not Orderly

820-10-35-54I ~~The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume and level of activity for the asset or liability.~~ liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). **[Content amended as shown and moved from paragraph 820-10-51F]** ~~Even if there has been a significant decrease in the volume and level of activity for the asset or liability, it is not appropriate to conclude that all transactions are not orderly (that is, distressed or forced).~~ In such circumstances, it is not appropriate to conclude that all transactions in that market are not orderly (that is, forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include, but are not limited to, ~~all of the following:~~

- a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- c. The seller is in or near bankruptcy or receivership (that is, distressed).
- d. The seller was required to sell to meet regulatory or legal requirements (that is, forced).
- e. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

~~The~~ A reporting entity shall evaluate the circumstances to determine ~~whether the transaction is orderly based whether,~~ on the weight of the ~~evidence.~~ evidence available, the transaction is orderly. **[Content amended as shown and moved from paragraph 820-10-51E]**

820-10-35-54J ~~Accordingly, the~~ A reporting entity shall consider ~~of~~ all of the following ~~guidance:~~

- a. If the ~~weight of the~~ evidence indicates the transaction is not orderly, ~~the~~ a reporting entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price when ~~estimating~~ measuring fair value or ~~estimating~~ measuring market risk premiums.
- b. If the ~~weight of the~~ evidence indicates ~~that~~ that a transaction is orderly, ~~the~~ a reporting entity shall consider that transaction price when ~~estimating~~ measuring fair value or ~~estimating~~ measuring market risk premiums. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and ~~circumstances.~~ circumstances, such as ~~all of the following:~~

1. The volume of the transaction
 2. The comparability of the transaction to the asset or liability being measured at fair value
 3. The proximity of the transaction to the measurement date.
- c. ~~If the~~ reporting entity does not have sufficient information to conclude that the transaction is orderly or that the transaction is not orderly, ~~whether a transaction is orderly,~~ it shall consider ~~that the~~ transaction price when ~~estimating~~ measuring fair value or ~~estimating~~ market risk premiums. However, that transaction price may not be determinative of fair value (that is, ~~that the~~ transaction price ~~may not be~~ is ~~not necessarily~~ the sole or primary basis for ~~estimating~~ measuring fair value or ~~estimating~~ market risk premiums). ~~The~~ When a reporting entity shall place less weight on transactions on which the reporting entity does not have sufficient information to conclude whether the transaction is orderly ~~particular transactions are orderly,~~ the reporting entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

In its determinations, ~~the~~ reporting entity need not undertake ~~all possible efforts,~~ exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. ~~available without undue cost and effort. The reporting entity would be expected to have sufficient information to conclude whether a transaction is orderly when it is party to the transaction. When a reporting entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly. [Content amended as shown and moved from paragraph 820-10-35-51F]~~

> Quoted Prices Provided by Third Parties

820-10-35-54K ~~When estimating~~ measuring fair value, this ~~Subtopic~~ Topic does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, ~~if when~~ the reporting entity has determined that the quoted prices provided by those parties are determined in accordance with this ~~Subtopic~~ Topic. **[Content amended as shown and moved from paragraph 820-10-35-51H]**

820-10-35-54L ~~However, if~~ there has been a significant decrease in the volume or level of activity for the asset or liability, ~~the~~ reporting entity shall evaluate whether ~~these~~ the quoted prices are based on current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about ~~risk~~ risk). In weighting a quoted price as an input to a fair value measurement, ~~the~~ reporting entity shall ~~place~~ places less weight (when compared with other indications of fair value that ~~are based on~~ reflect the results of transactions) on quotes that do not reflect the result of

transactions. **[Content amended as shown and moved from paragraph 820-10-35-51H]**

820-10-35-54M Furthermore, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) shall be considered when weighting the available evidence, with more weight given to quotes based on that represent binding offers. **[Content amended as shown and moved from paragraph 820-10-35-51H]**

65. Supersede paragraph 820-10-35-55, with no link to a transition paragraph, as follows:

820-10-35-55 Paragraph superseded by Accounting Standards Update 2010-XX. ~~Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. In developing unobservable inputs, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions. Paragraph 820-10-55-22 discusses Level 3 inputs for particular assets and liabilities.~~ **[Content amended and moved to paragraph 820-10-35-54A]**

820-10-35-55A Paragraph not used.

820-10-35-55B Paragraph not used.

66. Supersede paragraphs 820-10-35-56 through 35-58 and related headings, with no link to a transition paragraph, as follows:

>> ~~Inputs Based on Bid and Ask Prices~~

820-10-35-56 Paragraph superseded by Accounting Standards Update 2010-XX. ~~If an input used to measure fair value is based on bid and ask prices (for example, in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where in the fair value hierarchy the input falls (Level 1, 2, or 3). The use of bid prices for long positions (assets) and ask prices for short positions (liabilities) is permitted but not required.~~ **[Content amended and moved to paragraph 820-10-35-18G]**

820-10-35-57 Paragraph superseded by Accounting Standards Update 2010-XX. This Subtopic does not preclude the use of mid market pricing or other pricing conventions as a practical expedient for fair value measurements within a bid-ask spread. Bid-ask spread pricing methods appropriate under Securities and Exchange Commission (SEC) Accounting Series Release No. 118, Accounting for Investment Securities by Registered Investment Companies, are appropriate under this Subtopic. [Content amended and moved to paragraph 820-10-35-18H]

>> Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-35-58 Paragraph superseded by Accounting Standards Update 2010-XX. Classification within the fair value hierarchy of a fair value measurement of an investment within the scope of paragraphs 820-10-15-4 through 15-5 that is measured at **net asset value per share** (or its equivalent, for example member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) requires judgment, considering the following:

- a. If a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level-2 fair value measurement.
- b. If a reporting entity will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized as a Level-3 fair value measurement.
- c. If a reporting entity cannot redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date (for example, investments subject to a lockup or gate or investments whose redemption period does not coincide with the measurement date), the reporting entity shall consider the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment shall be categorized as a Level 2 or a Level 3 fair value measurement. For example, if the reporting entity does not know when it will have the ability to redeem the investment or it does not have the ability to redeem the investment in the near term at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized as a Level 3 fair value measurement. [Content amended and moved to paragraph 820-10-35-54B]

67. Amend the related heading for paragraph 820-10-35-59 and 820-10-35-61, with no link to a transition paragraph, as follows:

> Measuring the Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-35-59 A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-60 If the net asset value per share of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner consistent with the measurement principles of Topic 946, the reporting entity shall consider whether an adjustment to the most recent net asset value per share is necessary. The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-61 The decision about whether to apply the guidance in paragraph 820-10-35-59 shall be made on an investment-by-investment basis and shall be applied consistently to the fair value measurement of a reporting entity's entire position in a particular investment, unless it is probable at the measurement date that a reporting entity will sell a portion of an investment at an amount different from net asset value per share (or its equivalent) as described in the following paragraph. In those situations, the reporting entity shall account for the portion of the investment that is being sold in accordance with other provisions in this ~~Subtopic~~ Topic (that is, the reporting entity shall not apply the guidance in paragraph 820-10-35-59).

820-10-35-62 A reporting entity is not permitted to estimate the fair value of an investment (or a portion of the investment) within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share of the investment (or its equivalent) as a practical expedient if, as of the reporting entity's measurement date, it is probable that the reporting entity will sell the investment for an amount different from the net asset value per share (or its equivalent). A sale is considered probable only if all of the following criteria have been met as of the reporting entity's measurement date:

- a. Management, having the authority to approve the action, commits to a plan to sell the investment.
- b. An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.
- c. The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer's due diligence procedures).
- d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

68. Amend paragraphs 820-10-50-1 through 50-2 and supersede their related heading, with a link to transition paragraph 820-10-65-8, as follows:

Disclosure

> ~~Recurring Measurements~~

820-10-50-1 ~~The~~A reporting entity shall disclose information that ~~enables~~helps users of its financial statements to assess both of the following:

- a. For assets and liabilities that are measured at **fair value** on a recurring or a nonrecurring basis ~~in periods subsequent to initial recognition (for example, trading securities), in the statement of financial position after initial recognition,~~ the valuation techniques and **inputs** used to develop those measurements
- b. For recurring fair value measurements using significant **unobservable inputs** (Level 3), the effect of the measurements on earnings (or changes in net assets) or other comprehensive income for the period.

820-10-50-2 ~~To meet/satisfy the objectives—principles in~~ the preceding paragraph, ~~the~~a reporting entity shall disclose, at a minimum, ~~all of the following~~ information ~~(except as specified in paragraph 820-10-50-2B) in (a) through (e) below for each interim and annual period separately for each class of assets and liabilities~~ (see paragraph 820-10-50-2C for information on determining appropriate classes of assets and liabilities) measured at fair value in the statement of financial position after initial recognition. ~~The reporting entity shall determine appropriate classes of assets and liabilities on the basis of guidance in the following paragraph. It shall provide sufficient information to permit reconciliation of the fair value measurement disclosures for the various classes of assets and liabilities to the line items in the statement of financial position.~~

- a. ~~The~~For recurring fair value measurements, the fair value measurement at the reporting date or, for nonrecurring fair value measurements, the fair value measurement recorded during the period and the reasons for the measurement **[Content amended as shown and moved from paragraph 820-10-50-5(a)]**
- b. The level ofwithin the fair value hierarchy inwithin which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).~~measurement in its entirety falls, segregating the fair value measurement using any of the following:~~
1. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. Quoted prices in active markets for identical assets or liabilities (Level 1)~~
 2. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. Significant other **observable inputs** (Level 2)~~
 3. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. Significant unobservable inputs (Level 3).~~
- bb. For assets and liabilities held at the reporting date, ~~the~~The amounts of anysignificant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers.~~hierarchy, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized (see paragraph 820-10-50-2D). Significant transfers~~Transfers into each level shall be disclosed and discussed separately from transfers out of each level. ~~For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into the levels as that for transfers out of the levels. Examples of policies for when to recognize the transfers are as follows:~~
1. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The actual date of the event or change in circumstances that caused the transfer~~
 2. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The beginning of the reporting period~~
 3. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The end of the reporting period.~~ **[Content amended and moved to paragraph 820-10-50-2D]**
- bbb. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. ~~For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), a description of the valuation technique (or multiple valuation techniques) used, such as the market approach, income approach, or the cost approach, and the inputs used~~

~~in determining the fair values of each class of assets or liabilities. If there has been a change in the valuation technique(s) (for example, changing from a {add glossary link}market approach{add glossary link} to an {add glossary link}income approach{add glossary link} or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it. For examples of disclosures that a reporting entity may present to comply with the requirement to disclose the inputs used in measuring fair value in this paragraph, see paragraphs 820-10-55-22A through 55-22B. [Content amended as shown and moved from paragraph 820-10-50-2(e)]~~

- c. ~~For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to any of the following: categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:~~
- ~~1. Total gains or losses for the period (realized and unrealized), separately presenting gains or losses included recognized in earnings (or changes in net assets), assets) and gains or losses recognized in other comprehensive income, and a description of where those gains or losses included in earnings (or changes in net assets) are reported they are presented in the statement of income (or activities) or in other comprehensive income~~
 - ~~1a. Total gains or losses for the period recognized in other comprehensive income and a description of where they are presented in other comprehensive income~~
 - ~~2. Purchases, sales, issuances, issues, and settlements (each type of those types of changes disclosed separately)~~
 - ~~3. Transfers in and/or out of Level 3 and the reasons for those transfers. The amounts of any transfers into or out of Level 3, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized (see paragraph 820-10-50-2D). Significant transfers Transfers into Level 3 shall be disclosed and discussed separately from significant transfers out of Level 3. For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity. A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers shall be the same for transfers into Level 3 as that for transfers out of Level 3. Examples of policies for when to recognize the transfers are as follows:~~

- i. Subparagraph superseded by Accounting Standards Update 2010-XX. The actual date of the event or change in circumstances that caused the transfer
 - ii. Subparagraph superseded by Accounting Standards Update 2010-XX. The beginning of the reporting period
 - iii. Subparagraph superseded by Accounting Standards Update 2010-XX. The end of the reporting period.
- d. The amount of the total gains or losses for the period in (c)(1) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are ~~reported~~presented in the statement of income (or activities).
- e. Subparagraph superseded by Accounting Standards Update 2010-XX. For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), a description of the valuation technique (or multiple valuation techniques) used, such as the market approach, income approach, or the cost approach, and the inputs used in determining the fair values of each class of assets or liabilities. If there has been a change in the valuation technique(s) (for example, changing from a market approach to an income approach or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason for making it. For examples of disclosures that a reporting entity may present to comply with the requirement to disclose the inputs used in measuring fair value in this paragraph, see paragraphs 820-10-55-22A through 55-22B. **[Content amended and moved to paragraph 820-10-50-2(bbb)]**
- f. A measurement uncertainty analysis for fair value measurements categorized within Level 3 of the fair value hierarchy. If changing one or more of the unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used in the circumstances would have resulted in a significantly higher or lower fair value measurement, a reporting entity shall disclose the effect of using those different amounts and how it calculated that effect. When preparing a measurement uncertainty analysis, a reporting entity shall not take into account unobservable inputs that are associated with remote scenarios. A reporting entity shall take into account the effect of correlation between unobservable inputs if that correlation is relevant when estimating the effect on the fair value measurement of using those different amounts. For that purpose, significance shall be judged with respect to earnings (or changes in net assets) and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, with respect to total equity.

69. Supersede paragraph 820-10-50-2A, with a link to transition paragraph 820-10-65-8, as follows:

820-10-50-2A Paragraph superseded by Accounting Standards Update 2010-XX. For equity and debt securities, class shall be determined on the basis of the nature and risks of the investments in a manner consistent with the guidance in paragraph 320-10-50-1B and, if applicable, shall be the same as the guidance on major security type as described in paragraph 942-320-50-2 even if the equity securities or debt securities are not within the scope of paragraph 320-10-50-1B. For all other assets and liabilities, judgment is needed to determine the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided. Fair value measurement disclosures for each class of assets and liabilities often will require greater disaggregation than the reporting entity's line items in the statement of financial position. A reporting entity shall determine the appropriate classes for those disclosures on the basis of the nature and risks of the assets and liabilities and their classification in the fair value hierarchy (that is, Levels 1, 2, and 3). In determining the appropriate classes for fair value measurement disclosures, the reporting entity shall consider the level of disaggregated information required for specific assets and liabilities under other Topics. For example, under Topic 815, disclosures about derivative instruments are presented separately by type of contract such as interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts. The classification of the asset or liability in the fair value hierarchy also shall affect the level of disaggregation because of the different degrees of uncertainty and subjectivity involved in Level 1, Level 2, and Level 3 measurements. For example, the number of classes may need to be greater for fair value measurements using significant unobservable inputs (that is, Level 3 measurements) to achieve the disclosure objectives because Level 3 measurements have a greater degree of uncertainty and subjectivity.

70. Add paragraphs 820-10-50-2B through 50-2E, with a link to transition paragraph 820-10-65-8, as follows:

820-10-50-2B The disclosures set out in paragraph 820-10-50-2(bb), (c), (d), and (f) shall be required only for assets and liabilities that are measured at fair value in the statement of financial position on a recurring basis after initial recognition.

820-10-50-2C A reporting entity shall determine appropriate classes of assets and liabilities on the basis of the nature, characteristics, and risks of the asset or liability, and the level of the fair value hierarchy within which the fair value measurement is categorized. For example, the number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because such measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be

provided requires judgment. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, a reporting entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position. If another Topic specifies the class for an asset or liability, a reporting entity may use that class in providing the disclosures required in this Topic if that class meets the requirements in this paragraph.

820-10-50-2D A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are recognized in accordance with the guidance in paragraph 820-10-50-2(bb) and (c)(3). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as that for transfers out of the levels. Examples of policies for when to recognize the transfers are as follows:

- a.4. The actual date of the event or change in circumstances that caused the transfer
- b.2. The beginning of the reporting period
- c.3. The end of the reporting period. **[Content amended as shown and moved from paragraph 820-10-50-2(bb)]**

820-10-50-2E If the highest and best use of an asset differs from its current use, a reporting entity shall disclose the reason(s) that the asset is being used in a manner that differs from its highest and best use.

820-10-50-3 For derivative assets and liabilities, the reporting entity shall present both of the following:

- a. The fair value disclosures required by paragraph 820-10-50-2(a) through (bb) on a gross basis (which is consistent with the requirement of paragraph 815-10-50-4B(a))
- b. The reconciliation disclosure required by paragraph 820-10-50-2(c) through (d) on either a gross or a net basis.

71. Amend paragraphs 820-10-50-4 through 50-4A, with no link to a transition paragraph, as follows:

820-10-50-4 Example 8, Cases A and B (see paragraphs 820-10-55-60 through 55-63) Paragraphs 820-10-55-60 through 55-63 illustrate disclosures about recurring fair value measurements.

> Liability Issued with an Inseparable Third-Party Credit Enhancement

~~820-10-50-4A~~ For a ~~{add glossary link}~~ liability ~~having the characteristics set forth in paragraph 820-10-25-1~~ issued with an inseparable third-party credit enhancement ~~{add glossary link}~~, an issuer shall disclose the existence of ~~a~~ the third-party credit enhancement on its issued liability. Paragraph 820-10-35-18A states that, for the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit enhancement.

72. Supersede paragraph 820-10-50-5 and its related heading, with a link to transition paragraph 820-10-65-8, as follows:

> Nonrecurring Measurements

~~820-10-50-5~~ Paragraph superseded by Accounting Standards Update 2010-XX. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods after initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the valuation techniques and inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose all of the following information for each interim and annual period separately for each class of assets and liabilities. The reporting entity shall determine classes of assets and liabilities on the basis of the guidance in paragraph 820-10-50-2A.

- ~~a. The fair value measurement recorded during the period and the reasons for the measurement [Content amended and moved to paragraph 820-10-50-2(a)]~~
- ~~b. The level within the fair value hierarchy in which the fair value measurement in its entirety falls, segregating the fair value measurement using any of the following:~~
 - ~~1. Quoted prices in active markets for identical assets or liabilities (Level 1)~~
 - ~~2. Significant other observable inputs (Level 2)~~
 - ~~3. Significant unobservable inputs (Level 3).~~
- ~~c. Subparagraph superseded by Accounting Standards Update No. 2010-06~~
- ~~d. For fair value measurements using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3), the disclosure required by paragraph 820-10-50-2(e).~~

73. Supersede paragraph 820-10-50-6, with no link to a transition paragraph, as follows:

~~820-10-50-6 Paragraph superseded by Accounting Standards Update 2010-XX, Example 8, Case C (see paragraph 820-10-55-64) illustrates disclosures about nonrecurring measurements.~~

74. Amend paragraph 820-10-50-6A, with a link to transition paragraph 820-10-65-8, as follows:

> Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-50-6A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 (regardless of whether the practical expedient in paragraph 820-10-35-59 has been applied) and measured at fair value on a recurring or nonrecurring basis during the period, the reporting entity shall disclose information that enables users of its financial statements to understand the nature and risks of the investments and whether the investments are probable of being sold at amounts different from **{add glossary link}** net asset value per share **{add glossary link}** (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). To meet that objective, to the extent applicable, the reporting entity shall disclose all of the following information for each interim and annual period separately for each class of investment: ~~investment (class of investment shall be determined on the basis of the nature and risks of the investments in a manner consistent with the guidance for major security types in paragraph 320-10-50-4B):~~

- a. The fair value (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class, and a description of the significant investment strategies of the investee(s) in the class.
- b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be ~~be~~ liquidated by the investees.
- c. The amount of the reporting entity's unfunded commitments related to investments in the class.
- d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).

- e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
- f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
- g. If a reporting entity determines that it is probable that it will sell an investment(s) for an amount different from net asset value per share (or its equivalent) as described in paragraph 820-10-35-62, the reporting entity shall disclose the total fair value of all investments that meet the criteria in paragraph 820-10-35-62 and any remaining actions required to complete the sale.
- h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

> Changes in Valuation Techniques or Their Application

820-10-50-7 As discussed in paragraph 250-10-50-5, the disclosure provisions of Topic 250 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

75. Amend paragraphs 820-10-50-8 through 50-9, with no link to a transition paragraph, as follows:

> Tabular Format Required

820-10-50-8 The quantitative disclosures required by this ~~Subtopic~~Topic shall be presented using a tabular format. In addition, a reporting entity shall determine whether users of its financial statements need any other information to evaluate the quantitative information disclosed. (See Example 8 [paragraph 820-10-55-60], paragraph 820-10-55-60 for an illustration of the disclosures required by this Topic.)

820-10-50-8A Paragraph not used.

> Relation to Other Disclosure Requirements

820-10-50-9 The reporting entity is encouraged, but not required, to:

- a. Combine the fair value information disclosed ~~under~~in accordance with this Subtopic/Topic with the fair value information disclosed ~~under~~in accordance with the requirements in other Subtopics/Topics (for example, Section 825-10-50) in the periods in which those disclosures are required, if practicable
- b. Disclose information about other similar measurements (for example, inventories measured at market value ~~under~~in accordance with Topic 330), if practicable.

820-10-50-10 Plan assets of a defined benefit pension or other postretirement plan that are accounted for ~~under~~in accordance with Topic 715 are not subject to the disclosure requirements in paragraphs 820-10-50-1 through 50-9. Instead, the disclosures required in paragraphs 715-20-50-1(d)(iv) and 715-20-50-5(c)(iv) shall apply for fair value measurements of plan assets of a defined benefit pension or other postretirement plan.

76. Amend paragraphs 820-10-55-1 through 55-5 and their related headings, with a link to transition paragraph 820-10-65-8, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > The Fair Value Measurement Approach

820-10-55-1 ~~Because the exit price objective in paragraph 820-10-30-2 applies for all assets and liabilities measured at fair value, any fair value measurement requires that the reporting entity~~The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date. A fair value measurement requires a reporting entity to determine all of the following:

- a. The particular asset or liability that is the subject of the measurement (consistent with its **unit of account**)
- b. For ~~an~~a nonfinancial asset, the valuation premise that is appropriate for the measurement (consistent with its **highest and best use**)
- c. The principal (or most advantageous) market for the asset or liability ~~(for an asset, consistent with its highest and best use)~~

- d. The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop **inputs** that represent the assumptions that **market participants** would use when pricing the asset or liability and the level in the fair value hierarchy within which the inputs fall are categorized.

820-10-55-2 The judgments applied in different valuation situations often will be different. This Section describes ~~in general terms certain provisions of this Subtopic and provides Examples that incorporate simplified assumptions to illustrate the application of those provisions.~~, in qualitative terms, the judgments a reporting entity that measures assets and liabilities at fair value might apply in different valuation situations.

> > **The Fair Value Measurement Approach**

> > > **The Valuation Premise—Highest and Best Use**

820-10-55-3 When measuring the fair value of a nonfinancial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (for example, a business), the effect of the valuation premise depends on the circumstances. ~~an asset in use, the in-use valuation premise discussed in paragraph 820-10-35-12 can be incorporated in the measurement differently, depending on the circumstances. For instance example:~~

- a. The fair value of the asset might be the same whether the asset is used standalone or in combination with other assets or with other assets and liabilities using an in-use or an in-exchange valuation premise. ~~For example, that~~ That might be the case if the asset is a business ~~(such as a reporting unit)~~ that market participants would continue to operate. In that case, the transaction would involve the business in its entirety. The use of the assets as a group in ~~the context of an ongoing business~~ would generate synergies that would be available to market participants ~~(that is, market participant synergies).~~
- b. ~~The in-use valuation premise might be incorporated in the fair value of the asset.~~ An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset ~~in-exchange used on a standalone basis.~~ ~~For example, that~~ That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transportation and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).

- c. ~~The in-use valuation premise might be incorporated in the fair value of the asset.~~ An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work-in-process inventory that is unique and market participants would ~~complete~~convert the inventory into finished goods, the fair value of the inventory would assume that market participants have or would acquire any specialized machinery necessary to ~~complete~~convert the inventory into finished goods ~~would be available to market participants.~~ In that case, ~~market participants would have the specialized machinery in place or would acquire the specialized machinery in conjunction with the inventory.~~
- d. ~~The in-use valuation premise might be incorporated in the fair value of the asset through.~~ An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the valuation technique used to measure the fair value of the asset. For example, ~~that~~That might be the case when using the multiperiod excess earnings method to measure the fair value of ~~certain an intangible assets~~asset because that valuation technique specifically considers the contribution of any complementary assets and liabilities in the group in which such an intangible asset would be used.
- e. In more limited situations, when a reporting entity uses an asset within a group of assets, the reporting entity ~~the asset might be measured~~measure the asset at an amount that approximates its fair value ~~in-use~~ when allocating the fair value of the asset group ~~within which the asset is used~~ to the individual assets of the group. For example, ~~that~~That might be the case if the valuation involves real property and the fair value of improved property (that is, an asset group) is allocated to its component assets (such as land and improvements).

>>> Present Value Techniques

~~820-10-55-4 FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, provides guidance for~~ Paragraphs 820-10-55-5 through 55-20 provide information about using ~~{remove glossary link}~~**present value**~~{remove glossary link}~~ techniques to measure fair value. ~~That guidance focuses~~Those paragraphs focus on a traditional or **discount rate adjustment technique** and an **expected cash flow** (expected present value) technique. ~~This Section clarifies that guidance. (That guidance is included or otherwise referred to principally in paragraphs 39–46, 51, 62–71, 114, and 115 of Concepts Statement 7.)~~ This Section~~Those paragraphs~~ neither ~~prescribes~~prescribe the use of one specific present value technique nor ~~limits~~limit the use of present value techniques to measure fair value to the techniques discussed ~~herein~~. The present value technique used to measure fair value will

depend on facts and circumstances specific to the asset or liability being measured (for example, whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

> > > The Components of a Present Value Measurement

820-10-55-5 Present value (that is, an application of the **income approach**) is a tool used to link future amounts (for example, cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or ~~liability, a liability~~ using a present value technique ~~should capture~~captures all of the following elements from the perspective of market participants ~~as of at~~ the measurement date:

- a. An estimate of future cash flows for the asset or liability being measured.
- b. Expectations about possible variations in the amount ~~and/or~~and timing of the cash flows representing the uncertainty inherent in the cash flows.
- c. The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (that is, a risk-free interest rate). For present value computations denominated in nominal U.S. dollars, the yield curve for U.S. Treasury securities determines the appropriate risk-free interest rate. ~~U.S. Treasury securities are deemed (default) risk free because they pose neither uncertainty in timing nor risk of default to the holder.~~
- d. The price for bearing the uncertainty inherent in the cash flows (that is, a risk premium).
- e. Other ~~case-specific~~ factors that would be considered by market participants in the circumstances.
- f. ~~In the case of~~ For a liability, the **nonperformance risk** relating to that liability, including the reporting entity's (that is, the obligor's) own **{add glossary link}credit risk{add glossary link}**.

77. Amend paragraphs 820-10-55-6 through 55-19 and 820-10-55-21 through 55-23, with no link to a transition paragraph, as follows:

> > > General Principles

820-10-55-6 Present value techniques differ in how they capture those elements in the preceding paragraph. However, all of the following general principles govern the application of any present value technique used to measure fair value:

- a. Cash flows and discount rates should reflect assumptions that market participants would use in pricing the asset or liability.
- b. Cash flows and discount rates should consider only the factors attributed/attributable to the asset ~~(or liability)~~ or liability being measured.
- c. To avoid double counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects expectations about future defaults is appropriate if using contractual cash flows of a loan ~~(that is, a discount rate adjustment technique)~~. That same rate would not be used if using expected ~~(that is, probability-weighted)~~ cash flows ~~(that is, an expected present value technique)~~ because the expected cash flows already reflect assumptions about future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- d. Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which ~~(that include the effect of inflation)~~ should, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which ~~(that exclude the effect of inflation)~~ should, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pretax cash flows should be discounted at a rate consistent with those cash flows ~~(for example, a U.S. Treasury rate is quoted on a pretax basis, as is a London Interbank Offered Rate [LIBOR] or a prevailing term loan rate)~~.
- e. Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

> > > Risk and Uncertainty

820-10-55-7 A fair value ~~measurement, measurement~~ using present ~~value, value~~ techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases, both the amount and timing of the cash flows ~~will be~~ are uncertain. Even contractually fixed amounts, ~~likesuch as~~ the payments on a loan, will be are uncertain if there is risk of default.

820-10-55-8 Risk-averse market participants generally seek compensation (that is, a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount risk-averse market participants would demand because of the risk (uncertainty) uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree

of difficulty alone is not a sufficient ~~basis on which~~ reason to exclude a risk ~~adjustment~~ premium.

820-10-55-9 Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

- a. The discount rate adjustment technique (see paragraphs 820-10-55-10 through 55-12) uses ~~a risk-adjusted discount rate and~~ contractual, promised, or most likely cash flows and a discount rate that includes an adjustment for both of the following:
 1. The effect of the difference between those cash flows and the expected cash flows
 2. The risk premium that market participants require for bearing the uncertainty about whether the actual cash flows may ultimately differ from the expected cash flows.
- b. Method 1 of the expected present value technique (see paragraph 820-10-55-15) uses ~~a risk-free rate and~~ risk-adjusted expected cash flows and a risk-free rate.
- c. Method 2 of the expected present value technique (see paragraph 820-10-55-16) uses expected cash flows that are not risk adjusted and a risk-adjusted discount rate adjusted to include the risk premium that market participants require. ~~(which That rate is different from the rate used in the discount rate adjustment technique. technique) and expected cash flows.~~

> > > Discount Rate Adjustment Technique

820-10-55-10 The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (for example, contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised, or most likely cash flows are discounted at an observed or estimated market rate that corresponds to an observed market rate associated with ~~for~~ such conditional cash flows (that is, a market rate of return).

820-10-55-11 ~~The application of the~~ discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (for example, whether the cash flows are contractual or noncontractual and are likely to respond similarly to changes in economic conditions), as well as other factors (for example, credit standing, collateral, duration, restrictive covenants, and liquidity). Alternatively, if

a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (that is, using a build-up approach). ~~Example 2 (see paragraph 820-10-55-33)~~ Paragraph 820-10-55-33 illustrates the build-up approach.

820-10-55-12 ~~In applying~~ When the discount rate adjustment technique is applied to fixed claims, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are ~~other than~~ not fixed claims, an adjustment to the cash flows also may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

> > > **Expected Present Value Technique**

820-10-55-13 The expected present value technique uses as a starting point a set of cash flows that, in theory, represents the probability-weighted average of all possible cash flows (that is, the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a ~~discrete~~ random variable's possible values where with the respective probabilities ~~are used as the~~ weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (~~as are~~ unlike the cash flows used in the discount rate adjustment technique).

820-10-55-14 In making an investment decision, risk-averse market participants would consider the risk inherent in that the actual cash flows may ultimately differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

- a. **Unsystematic (diversifiable) risk**
- b. ~~The second is general market risk, also referred to as systematic~~ **Systematic (nondiversifiable) risk.**

820-10-55-15 Method 1 of the expected present value technique adjusts the expected cash flows for ~~the~~ systematic (that is, market) risk by subtracting a cash risk premium (that is, risk-adjusted expected cash flows). These risk-adjusted expected cash flows represent a certainty equivalent cash flow, which is discounted at a risk-free interest rate. A certainty equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk ~~such so~~ that a market participant ~~one~~ is indifferent to trading a certain cash flow for an expected cash flow. For example, if ~~one~~ a market participant were willing to trade an expected

cash flow of \$1,200 for a certain cash flow of \$1,000, the \$1,000 is the certainty equivalent of the \$1,200 (that is, the \$200 would represent the cash risk premium). In that case, ~~one~~ the market participant would be indifferent as to the asset held.

820-10-55-16 In contrast, Method 2 of the expected present value technique adjusts for systematic (that is, market) risk by adding a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (that is, an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely ~~will~~ to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

820-10-55-17 To illustrate Methods 1 and 2, assume that an asset has expected cash flows of \$780 in 1 year based on the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a 1-year horizon is 5 percent, and the ~~{remove glossary link}~~systematic risk~~{remove glossary link}~~ premium for an asset with the same risk profile is 3 percent.

<u>Possible Cash Flows</u>		<u>Probability</u>	<u>Probability-Weighted Cash Flows</u>	
\$	500	15%	\$	75
\$	800	60%	\$	480
\$	900	25%	\$	225
Expected cash flows			\$	<u>780</u>

820-10-55-18 In this simple illustration, the expected cash flows (\$780) represent the probability-weighted average of the 3 possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to consider distributions of literally all possible cash flows using complex models and techniques ~~to apply the expected present value technique~~. Rather, it should be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, a reporting entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (for example, changes in external factors, including economic or market conditions, industry trends, and competition as well

as changes in internal factors ~~impacting~~affecting the reporting entity more specifically), considering the assumptions of market participants.

820-10-55-19 In theory, the present value (that is, the fair value) of the asset's cash flows is the same (\$722) whether determined ~~under~~using Method 1 or Method 2, as indicated below. Specifically:

- a. ~~Under~~Using Method 1, the expected cash flows are adjusted for systematic (that is, market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (that is, the cash risk premium of \$22) could be determined ~~based on~~using the systematic risk premium of 3 percent ($\$780 - [\$780 \times (1.05/1.08)]$), which results in risk-adjusted expected cash flows of \$758 ($\$780 - \22). The \$758 is the certainty equivalent of \$780 and is discounted at the risk-free interest rate (5 percent). The present value (that is, the fair value) of the asset is \$722 ($\$758/1.05$).
- b. ~~Under~~Using Method 2, the expected cash flows are not adjusted for systematic (that is, market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 percent (that is, the 5 percent risk-free interest rate plus the 3 percent systematic risk premium). The present value (that is, the fair value) of the asset is \$722 ($\$780/1.08$).

820-10-55-20 When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available, and the judgments applied.

>>> Fair Value Hierarchy

>>>> Level 2 Inputs

820-10-55-21 Examples of **Level 2 inputs** for particular assets and liabilities include the following:

- a. Receive-fixed, pay-variable interest rate swap based on ~~a—the London Interbank Offered Rate (LIBOR)~~LIBOR swap rate. A Level 2 input would ~~include a—the~~ LIBOR swap rate if that rate is observable at commonly quoted intervals for substantially the full term of the swap.

- b. Receive-fixed, pay-variable interest rate swap based on a ~~foreign-denominated~~foreign currency-denominated yield curve. A Level 2 input would ~~include~~be the swap rate based on a ~~foreign-denominated~~foreign currency-denominated yield curve that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for Year 10 would not be significant to the fair value measurement of the swap in its entirety.
- c. Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate. A Level 2 input would ~~include~~be the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.
- d. Three-year option on exchange-traded shares. A Level 2 input would ~~include~~be the implied volatility for the shares derived through extrapolation to Year 3 if both of the following conditions exist:
 1. Prices for ~~one-one-year~~ and two-year options on the shares are observable.
 2. The extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option.

In that case, the implied volatility could be derived by extrapolating from the implied volatility of the ~~one-one-year~~ and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the ~~one-one-year~~ and two-year implied volatilities is established.

- e. Licensing arrangement. For a licensing arrangement that is acquired in a **{add glossary link}**business combination**{add glossary link}** and ~~that~~ was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would include the royalty rate at inception of the arrangement.
- f. Finished goods inventory at retail outlet. For finished goods inventory that is acquired in a business combination, a Level 2 input would ~~include~~be either a price to customers in a retail market or a wholesale price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement ~~should~~will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.

- g. Building held and used. A Level 2 input would ~~include~~be the price per square foot for the building (a valuation multiple) derived from observable market data, for example, multiples derived from prices in observed transactions involving comparable (similar) buildings in similar locations.
- h. Reporting unit. A Level 2 input would ~~include~~be a valuation multiple (for example, a multiple of earnings or revenue or a similar performance measure) derived from observable market data, for example, multiples derived from prices in observed transactions involving comparable (similar) businesses, considering operational, market, financial, and nonfinancial factors.

> > > Level 3 Inputs

820-10-55-22 Examples of **Level 3 inputs** for particular assets and liabilities include the following:

- a. Long-dated currency swap. A Level 3 input would ~~include~~be an interest rate in a specified currency that ~~are~~is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.
- b. Three-year option on exchange-traded shares. A Level 3 input would include historical volatility, that is, the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participant expectations about future volatility, even if it is the only information available to price an option.
- c. Interest rate swap. A Level 3 input would ~~include~~be an adjustment to a mid-market consensus (nonbinding) price for the swap developed using data that are not directly observable and ~~that~~ cannot otherwise be corroborated by observable market data.
- d. Asset retirement obligation at initial recognition. A Level 3 input would ~~include expected cash flows~~be a current estimate of the future cash outflows to be paid to fulfill the obligation (including the direct and indirect costs of fulfilling the obligation and the compensation that a market participant would require for taking on the asset retirement obligation) if those cash flows are developed using the reporting entity's own data if there is no reasonably available information (adjusted for risk) developed using the reporting entity's own data if there is no information reasonably available without undue cost and effort that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, for example, a current a-risk-free interest rate or a credit-adjusted risk-free rate if the effect of the reporting entity's credit

standing on the fair value of the liability is reflected in the discount rate rather than in the ~~expected cash flows~~ estimate of future cash outflows. ~~Section 410-20-55 illustrates the application of the expected present value technique to an asset retirement obligation measured at fair value at initial recognition under Subtopic 410-20-~~

- e. Reporting unit. A Level 3 input would ~~include~~ be a financial forecast (for example, of cash flows or earnings) developed using the reporting entity's own data if there is no ~~information~~—reasonably available ~~information without undue cost and effort~~ that indicates that market participants would use different assumptions.

> > Disclosures—Valuation Techniques and Inputs

820-10-55-22A ~~Examples of disclosures that the reporting entity may present For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, this Topic requires a reporting entity to disclose a description of the valuation technique(s) and the inputs used in the fair value measurement. A reporting entity might disclose the following to comply with the input disclosure requirement of paragraph 820-10-50-2(c).~~ 820-10-50-2(bbb) include the following:

- a. Quantitative information about the inputs, for example, for ~~certain~~ debt securities or derivatives, information such as, but not limited to, prepayment rates, rates of estimated credit losses, interest rates (for example, the LIBOR swap rate) or discount rates, and volatilities.
- b. The nature of the item being measured at fair value, including the characteristics of the item being measured that are considered in the determination of relevant inputs. For example, for residential mortgage-backed securities, a reporting entity ~~might disclose~~ may conclude that meeting the objective of this disclosure requirement requires disclosure of items such as the following:
 1. The types of underlying loans (for example, prime loans or subprime or home equity lines of credit) loans)
 2. Collateral
 3. Guarantees or other credit enhancements
 4. Seniority level of the tranches of securities
 5. The year of ~~issuance~~ issue
 6. The weighted-average coupon rate of the underlying loans and the securities
 7. The weighted-average maturity of the underlying loans and the securities
 8. The geographical concentration of the underlying loans
 9. Information about the credit ratings of the securities.
- c. How third-party information such as broker quotes, pricing services, net asset values, and relevant market data was considered in measuring fair value.

820-10-55-22B In addition, a reporting entity should provide any other information that will help users of its financial statements to evaluate the quantitative information disclosed. For example, a reporting entity might disclose the following~~For example, with respect to its investment in a class of residential mortgage-backed securities, a reporting entity may disclose the following~~securities:

As of December 31, 20X1, the fair value of the reporting entity's investments in available-for-sale Level 3 residential mortgage-backed securities was \$XXX million. These securities are senior tranches in a securitization trust and have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. The underlying loans for these securities are residential subprime mortgages that originated in California in 2006. The underlying loans have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. These securities are currently rated below investment grade. To ~~estimate~~measure their fair value, the reporting entity used an industry standard valuation pricing model, which ~~is based on~~uses an income approach. The significant inputs for the valuation pricing model include the following weighted averages:

- a. Yield: XX percent
- b. Probability of default: XX percent constant default rate
- c. Loss severity: XX percent
- d. Prepayment: XX percent constant prepayment rate.

> > Scope Application to Receivables

820-10-55-23 The practical expedient in paragraph 310-10-35-22 (observable market price or the fair value of collateral if the loan is collateral-dependent) is a fair value measurement. Accordingly, if that practical expedient is used, the ~~guidance~~requirements in this ~~Subtopic~~Topic shall apply.

820-10-55-23A Paragraph not used.

820-10-55-23B Paragraph not used.

78. Amend paragraphs 820-10-55-23C through 55-23D, with no link to a transition paragraph, as follows:

> > Liability Issued with an Inseparable Third-Party Credit Enhancement

820-10-55-23C Paragraph ~~820-10-25-1~~820-10-35-18A ~~sets out the narrow scope of~~ certain ~~specifies the~~ guidance on accounting for and financial reporting presentation of a liability issued with an inseparable third-party credit enhancement (for example, debt that is issued with a contractual third-party guarantee) when that liability is measured or disclosed at fair value on a recurring basis. That guidance does not address the accounting for a premium paid by the issuer for credit-enhanced liabilities that are not measured at fair value on a recurring basis, for example, if the issuer recognizes a credit-enhanced liability at amortized cost. However, that guidance (see paragraph 820-10-50-4A) does apply to the issuer's disclosure of fair value for that credit-enhanced liability.

820-10-55-23D For the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit ~~enhancement~~enhancement (for example, a third-party guarantee of debt). Any payments made by the guarantor ~~under~~in accordance with the guarantee result in a transfer of the issuer's debt obligation from the investor to the guarantor. The issuer's resulting debt obligation to the guarantor has not been guaranteed. Thus, the fair value of that obligation considers the issuer's credit standing and not the credit standing of the guarantor. For example, in determining when measuring the fair value of debt liability with a third-party guarantee, the issuer would consider its own credit standing and not that of the third-party guarantor.

79. Amend paragraphs 820-10-55-24 through 55-38 and related heading, with no link to a transition paragraph, as follows:

> Illustrations

820-10-55-24 The following Examples illustrate, in qualitative terms, the judgments a reporting entity that measures assets ~~and/or~~and liabilities at fair value might apply in ~~varying~~different valuation situations.

> > Example 1: ~~The Valuation Premise—~~Highest and Best Use and Valuation Premise

820-10-55-25 ~~For some assets, in particular nonfinancial assets, Cases A through C illustrate the application of the highest-and-best-use concept could have a significant effect on the fair value measurement. The following Cases illustrate the application of the highest and best use concept in situations in which nonfinancial assets are newly acquired; and valuation premise concepts for nonfinancial assets.~~

- a. ~~Asset group (Case A)~~
- b. ~~Land (Case B)~~
- c. ~~In-process research and development project (Case C).~~

> > Case A: Asset Group

820-10-55-26 ~~The~~ reporting entity, a strategic buyer, acquires ~~a group of assets and assumes liabilities (Assets A, B, and C)~~ in a business combination. One of the groups of assets acquired comprises Assets A, B, and C. Asset C is billing software developed by the acquired entity for its own use in conjunction with Assets A and B (that is, the related assets). The reporting entity measures the fair value of each of the assets individually, consistent with the specified unit of account for the assets. The reporting entity determines that the highest and best use of the assets is their current use and that each asset would provide maximum value to market participants principally through its use in combination with other assets or with other assets and liabilities (that is, its complementary assets and liabilities). There is no evidence to suggest that there is an alternative use for the assets, as a group (highest and best use is in use).

820-10-55-27 ~~In this instancesituation, the market in which~~ the reporting entity would sell the assets ~~is in~~ the market in which it initially acquired the assets (that is, the entry and exit markets from the perspective of the reporting entity are the same). Market participant buyers with whom the reporting entity would ~~transact~~ enter into a transaction in that market have characteristics that are generally representative of both financial buyers and strategic buyers and include those buyers that initially bid for the assets. Although market participant buyers might be broadly classified as strategic buyers or financial buyers ~~(or both)~~, there often will be differences among the market participant buyers within each of those groups, reflecting, for example, different uses for an asset and different operating strategies.

820-10-55-28 ~~As discussed in the followingbelow,~~ differences between the indicated fair values of the individual assets relate principally to the use of the assets by those market participants within different asset groups:

- a. Strategic buyer asset group. The reporting entity, ~~a strategic buyer,~~ determines that strategic buyers have related assets that would enhance the value of the group within which the assets would be used (that is, market participant synergies). Those assets include a substitute asset for Asset C (the billing software), which would be used for only a limited transition period and could not be sold ~~standalone on its own~~ at the end of that period. Because strategic buyers have substitute assets, Asset C would not be used for its full remaining economic life. The indicated fair values of Assets A, B, and C within the strategic buyer

asset group (reflecting the synergies resulting from the use of the assets within that group) are \$360, \$260, and \$30, respectively. The indicated fair value of the assets as a group within the strategic buyer asset group is \$650.

- b. Financial buyer asset group. The reporting entity determines that financial buyers do not have related or substitute assets that would enhance the value of the group within which the assets would be used. Because financial buyers do not have substitute assets, Asset C (that is, the billing software) would be used for its full remaining economic life. The indicated fair values of Assets A, B, and C within the financial buyer asset group are \$300, \$200, and \$100, respectively. The indicated fair value of the assets as a group within the financial buyer asset group is \$600.

820-10-55-29 The fair values of Assets A, B, and C would be determined ~~based on the basis of the~~ use of the assets as a group within the strategic buyer group (\$360, \$260, and \$30). Although the use of the assets within the strategic buyer group does not maximize the fair value of each of the assets individually, it maximizes the fair value of the assets as a group (\$650).

> > Case B: Land

820-10-55-30 ~~The~~ A reporting entity acquires land in a business combination. The land is currently developed for industrial use as a site for a ~~manufacturing facility~~ factory. The current use of land often is presumed to be its highest and best use unless market or other factors suggest a different use. ~~However, nearby~~ Nearby sites have recently been developed for residential use as sites for high-rise condominiums. ~~Based on~~ On the basis of that development and recent zoning and other changes to facilitate that development, the reporting entity determines that the land currently used as a site for a ~~manufacturing facility~~ factory could be developed as a site for residential use (that is, for high-rise condominiums).

820-10-55-31 ~~In this instance, the~~ The highest and best use of the land would be determined by comparing both of the following:

- a. The ~~fair value of the~~ land as currently developed for industrial use (that is, the land is to be used in combination with other assets, such as the factory, or with other assets and liabilities) ~~manufacturing operation, which presumes that the land would continue to be used as currently developed for industrial use (in-use)~~
- b. The value of the land as a vacant site for residential use, considering the costs of demolition ~~demolishing the factory~~ and other costs (including the uncertainty about whether the reporting entity will be able to convert

the asset to the alternative use) necessary to convert the land to a vacant site (in exchange that is, the land is to be used on a standalone basis).

The highest and best use of the land would be determined based on the basis of the higher of those values. (~~In situations involving real estate appraisal, the determination of highest and best use in the manner described also might consider other factors relating to the manufacturing operation factory operations, including its assets and liabilities.)~~liabilities.

>>> Case C: In-Process Research and Development Project

820-10-55-32 ~~The~~A reporting entity acquires an in-process research and development project in a business combination. The reporting entity does not intend to complete the project. If completed, the project would compete with one of its own projects (to provide the next generation of the reporting entity's commercialized technology). Instead, the reporting entity intends to hold (lock up) the project to prevent its competitors from obtaining access to the technology. In doing this, the project is expected to provide defensive value, principally by improving the prospects for the reporting entity's own competing technology. ~~For purposes of measuring~~To measure the fair value of the project at initial recognition, the highest and best use of the project would be determined ~~based on the basis of~~ its use by market participants. For example:

- a. The highest and best use of the in-process research and development project would be ~~in-use to continue development~~ if market participants would continue to develop the project and that use would maximize the value of the group of assets or of assets and liabilities in which the project would be used (that is, the asset would be used in combination with other assets or with other assets and liabilities). That might be the case if market participants do not have similar ~~technology (in development or commercialized)~~technology, either in development or commercialized. The fair value of the project, ~~measured using an in-use valuation premise, project~~ would be determined/measured based on the basis of the price that would be received in a current transaction to sell the project, assuming that the in-process research and development would be used with its complementary assets and liabilities ~~as a group~~ and that those ~~complementary~~assets and liabilities would be available to market participants.
- b. The highest and best use of the in-process research and development project would be to cease development~~also would be in-use~~ if, for competitive reasons, market participants would lock up the project and that use would maximize the value of the group of assets or of assets and liabilities in which the project would be used (that is, the asset would be used standalone as a locked-up project). That might be the

case if market participants have technology in a more advanced stage of development that would compete with the project ~~(if completed)~~if completed and the project would be expected to ~~provide defensive value (if locked up)~~improve the prospects for their own competing technology if locked up. The fair value of the ~~project~~project would be measured ~~using an in-use valuation premise, would be determined based on the basis of the price that would be received in a current transaction to sell the project, assuming that the in-process research and development would be used (that is, locked up) with its complementary assets and liabilities as a group and that those complementary assets and liabilities would be available to market participants.~~

- c. The highest and best use of the in-process research and development project would be ~~in exchange to cease development~~ if market participants would discontinue ~~the~~its development ~~of the project~~. That might be the case if the project is not expected to provide a market rate of return ~~(if completed)~~if completed and would not otherwise provide defensive value ~~(if locked up)~~if locked up. The fair value of the ~~project~~project, ~~measured using an in-exchange valuation premise,~~ would be ~~determined~~measured based on the basis of the price that would be received in a current transaction to sell the project ~~standalone by itself~~ (which might be zero).

> > Example 2: Discount Rate Adjustment Technique—The Build-Up Approach

820-10-55-33 To illustrate a build-up approach (as discussed in paragraph 820-10-55-11), assume that Asset A is a contractual right to receive \$800 in 1 year ~~(that is, there is no timing uncertainty)~~. There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

- a. Asset B is a contractual right to receive \$1,200 in 1 year and has a market price of \$1,083. Thus, the implied annual rate of return ~~(that is, a 1-year market rate of return)~~ is 10.8 percent $[(\$1,200/\$1,083) - 1]$.
- b. Asset C is a contractual right to receive \$700 in 2 years and has a market price of \$566. Thus, the implied annual rate of return ~~(that is, a 2-year market rate of return)~~ is 11.2 percent $[(\$700/\$566)^{0.5} - 1]$.
- c. All three assets are comparable with respect to risk ~~(that is, dispersion of possible payoffs and credit)~~.

820-10-55-34 ~~Based on~~On the basis of the timing of the contractual payments to be received ~~relative to~~for Asset A (one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual

payment to be received for Asset A (\$800) and the 1-year market rate derived from Asset B (10.8 percent), the fair value of Asset A is \$722 (\$800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case, the 2-year market rate indicated by Asset C (11.2 percent) would be adjusted to a 1-year market rate ~~based on~~using the term structure of the risk-free yield curve. Additional information and analysis ~~also~~ might be required to determine ~~if whether~~ the risk premium for one-year and two-year assets is the same. If it is determined that the risk premium for one-year and two-year assets is not the same, the two-year market rate of return would be further adjusted for that effect.

> > Example 3: Use of Multiple Valuation Techniques

~~820-10-55-35 Paragraph 820-10-35-28 emphasizes that valuation techniques consistent with the market approach, income approach, and/or cost approach should be used to measure fair value. Paragraph 820-10-35-24 explains that, in some cases, This Topic notes that a single valuation technique will be appropriate in some cases. In other cases, multiple valuation techniques will be appropriate. Cases A and B illustrate the use of multiple valuation techniques. The following Cases illustrate the use of multiple valuation techniques:~~

- ~~a. Machine held and used (Case A)~~
- ~~b. Software asset (Case B).~~

> > > Case A: Machine Held and Used

~~820-10-55-36 The reporting entity tests for impairment an asset group that is held and used in operations. The asset group is impaired. The reporting entity measures the fair value of a machine that is used in the asset group as a basis for allocating the impairment loss to the assets of the group in accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-40. A reporting entity acquires a machine in a business combination. The machine will be held and used in its operations. The machine, initially machine was originally purchased by the acquired entity from an outside vendor, vendor and, before the business combination, was subsequently customized by the reporting-acquired entity for use in its operations. However, the customization of the machine was not extensive. The reporting-acquiring entity determines that the asset would provide maximum value to market participants through its use in combination with other assets or with other assets and liabilities as a group (as installed or otherwise configured for use). There is no evidence to suggest that there is an alternative use for the machine. Therefore, the highest and best use of the machine is in use its current use.~~

820-10-55-37 The reporting entity determines that sufficient data are available to apply the ~~{add glossary link}~~cost approach~~{add glossary link}~~ and, because the customization of the machine was not extensive, the ~~{add glossary link}~~market approach~~{add glossary link}~~. The income approach is not used because the machine does not have a separately identifiable income stream from which to develop reliable estimates of future cash flows. ~~Further~~Furthermore, information about short-term and intermediate-term lease rates for similar used machinery that otherwise could be used to project an income stream (that is, lease payments over remaining service lives) is not available. The market and cost approaches are applied as follows:

- a. ~~Market approach.~~The market approach is applied using quoted prices for similar machines adjusted for differences between the machine (as customized) and the similar machines. The measurement reflects the price that would be received for the machine in its current condition (used) and location (installed and configured for ~~use~~), ~~thereby including installation and transportation costs~~use. The fair value indicated by that approach ranges from \$40,000 to \$48,000.
- b. ~~Cost approach.~~The cost approach is applied by estimating the amount that currently would be required to construct a substitute (customized) machine of comparable utility. The estimate considers the condition of the machine and the environment in which it operates, including physical wear and tear (that is, physical deterioration), improvements in technology (that is, functional obsolescence), conditions external to the condition of the machine such as a decline in the market demand for similar machines (that is, economic obsolescence), (for example, physical deterioration, functional obsolescence, and economic obsolescence) and ~~includes~~ installation costs. The fair value indicated by that approach ranges from \$40,000 to \$52,000.

820-10-55-38 The reporting entity determines that the ~~fair value~~higher end of the range indicated by the market approach is ~~more~~most representative of fair value than the fair value indicated by the cost approach and, therefore, ascribes more weight to the results of the market approach. That determination is ~~based~~made on the ~~basis of the~~ relative reliability~~subjectivity~~ of the inputs, considering the degree of comparability between the machine and the similar machines. In particular:

- a. The inputs used in the market approach (quoted prices for similar machines) require ~~relatively~~ fewer and less subjective adjustments than the inputs used in the cost approach.
- b. The range indicated by the market approach overlaps with, but is narrower than, the range indicated by the cost approach.
- c. There are no known unexplained differences (between the machine and the similar machines) within that range.

The reporting entity ~~further~~ determines that the ~~higher end of the range~~ fair value indicated by the market approach is ~~most~~ more representative of fair value, largely because the majority of relevant data points in the market approach ~~fall~~ lie at or near the higher end of the range. Accordingly, the reporting entity determines that the fair value of the machine is \$48,000.

80. Add paragraph 820-10-55-38A, with no link to a transition paragraph, as follows:

820-10-55-38A If customization of the machine was extensive or if there were not sufficient data available to apply the market approach (for example, because market data reflect transactions for machines used on a standalone basis [for example, a scrap value for specialized assets] rather than machines used in combination with other assets or with other assets and liabilities), the reporting entity would apply the cost approach. When an asset is used in combination with other assets or with other assets and liabilities, the cost approach assumes the sale of the machine to a market participant buyer with the complementary assets and liabilities. The price received for the sale of the machine (that is, an exit price) would not be more than the cost that a market participant buyer would incur to acquire or construct a substitute machine of comparable utility. Nor would that price be more than the economic benefit that a market participant buyer would derive from the use of the machine.

81. Amend paragraphs 820-10-55-39 through 55-42, with no link to a transition paragraph, as follows:

> > Case B: Software Asset

820-10-55-39 ~~The~~ reporting entity acquires a group of assets. The asset group includes an income-producing software asset internally developed for license to customers and its complementary assets and liabilities (including a related database with which the software asset is used). ~~For purposes of~~ To allocating ~~allocate~~ the cost of the group to the individual assets acquired, the reporting entity measures the fair value of the software asset. The reporting entity determines that the software asset would provide maximum value to market participants through its use in combination with other assets or with other assets and liabilities (that is, its complementary assets and liabilities) ~~as a group. There is no evidence to suggest that there is an alternative use for the software asset. Therefore, the highest and best use of the software asset is in its current use. (In this instance case, the licensing of the software asset, in and of itself, does not rene~~ indicate that the fair value of the asset would be maximized through its use by market participants on a standalone basis.) ~~the highest and best use of the software asset in exchange.)~~

820-10-55-40 The reporting entity determines ~~that that~~, in addition to the income approach, sufficient data might be available to apply the cost approach but not the market approach. Information about market transactions for comparable software assets is not available. The income and cost approaches are applied as follows:

- a. ~~Income approach.~~—The income approach is applied using a present value technique. The cash flows used in that technique reflect the income stream expected to result from the software asset (license fees from customers) over its economic life. The fair value indicated by that approach is \$15 million.
- b. ~~Cost approach.~~—The cost approach is applied by estimating the amount that currently would be required to construct a substitute software asset of comparable utility (that is, considering functional, technological, functional and economic obsolescence). The fair value indicated by that approach is \$10 million.

820-10-55-41 Through its application of the cost approach, the reporting entity determines that market participants would not be able to ~~replicate~~construct a substitute software asset of comparable utility. ~~Certain attributes~~Some characteristics of the software asset are unique, having been developed using proprietary information, and cannot be readily replicated. The reporting entity determines that the fair value of the software asset is \$15 million, as indicated by the income approach.

> > **Example 4: Fair Value Hierarchy—Level 1 Principal (or Most Advantageous) Market**

820-10-55-42 ~~This Example 4~~ illustrates the use of **Level 1 inputs** to measure the fair value of a ~~financial an~~ asset that trades in ~~multiple different~~ **{add glossary link}** active markets **{add glossary link}** with different prices.

82. Amend paragraphs 820-10-55-43 through 55-45, with a link to a transition paragraph 820-10-65-8, as follows:

820-10-55-43 ~~A financialAn~~ asset is ~~traded—~~sold in two different ~~exchanges~~active markets with different prices. The reporting entity ~~transacts~~enters into transactions in both markets and ~~has the ability to~~can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is \$26, ~~and~~**transaction costs** in that market are \$3, ~~and the costs to transport the asset to that market are \$2~~ (that is, the net amount that would be received is \$23\$21). In Market B, the price that would be received is \$25, ~~and~~transaction costs in that market are \$1, ~~and the costs to~~

transport the asset to that market are \$2 (that is, the net amount that would be received in Market B is ~~\$24~~\$22).

820-10-55-44 If Market A is the **principal market** for the asset (that is, the market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after considering transportation costs (~~\$26~~\$24).

820-10-55-45 If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the **most advantageous market**. The most advantageous market is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received for to sell the asset, after considering transaction costs and transportation costs in the respective markets (that is, the net amount that would be received in the respective markets). ~~Because the price in Market B adjusted for transaction costs would maximize the net amount that would be received for the asset (\$24), the fair value of the asset would be measured using the price in that market (\$25). Although transaction costs are considered in determining the most advantageous market, the price in that market used to measure the fair value of the asset is not adjusted for those costs.~~ **[Content amended and moved to paragraph 820-10-55-45A]**

83. Add paragraph 820-10-55-45A, with a link to transition paragraph 820-10-65-8, as follows:

820-10-55-45A Because the reporting entity would maximize the net amount that would be received for the asset price in Market B (\$22) adjusted for transaction costs would maximize the net amount that would be received for the asset (\$24), the fair value of the asset would be measured using the price in that market (\$25), less transportation costs (\$2), resulting in a measurement of \$23. Although transaction costs are considered in when determining which market is the most advantageous market, the price in that market used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transportation costs). **[Content amended as shown and moved from paragraph 820-10-55-45]**

84. Amend paragraphs 820-10-55-46 through 55-49, with no link to a transition paragraph, as follows:

**> > Example 5: Transaction Prices and Initial Fair Value Measurement—
Interest Rate Swap at Initial Recognition**

820-10-55-46 Paragraph ~~This Topic (see paragraphs 820-10-30-3 through 30-3A)~~ clarifies that in many cases the transaction price, that is, the price paid (received) for a particular asset (liability), will represent the fair value of that asset (liability) at initial recognition, but not presumptively. This Example illustrates ~~situations in which when~~ the price in a transaction involving a derivative instrument might (and might not) ~~represent equal~~ the fair value of the instrument at initial recognition.

820-10-55-47 Entity A (a retail counterparty) enters into an interest rate swap in a retail market with Entity B (a securities dealer) for no initial consideration (that is, the transaction price is zero). Entity A ~~transacts an access only in~~ the retail market. Entity B ~~transacts in an access both~~ the retail market (that is, with retail counterparties) and in the ~~interdealer~~**(add glossary link)**dealer market**(add glossary link)** (that is, with securities dealer counterparties).

820-10-55-48 From the perspective of Entity A, the retail market in which it initially ~~transacted is the principal market for~~entered into the swap is the principal market for the swap; if Entity A were to transfer its rights and obligations under the swap, it would do so with a securities dealer counterparty in that market. In that case, the transaction price (zero) would represent the fair value of the swap to Entity A at initial recognition, that is, the price that Entity A would receive ~~(or pay)~~ to sell ~~(or transfer)~~ or pay to transfer the swap in a transaction with a securities dealer counterparty in the retail market (that is, an **(add glossary link)**exit price**(add glossary link)**). That price would not be adjusted for any incremental (transaction) costs that would be charged by that securities dealer counterparty.

820-10-55-49 From the perspective of Entity B, the ~~interdealer~~**(add glossary link)**dealer market (not the retail market in which it initially transacted) is the principal market for the swap; if Entity B were to transfer its rights and obligations under the swap, it would do so with a securities dealer in that market. Because the market in which Entity B initially ~~transacted~~entered into the swap is different from the principal market for the swap, the transaction price (zero) would not necessarily represent the fair value of the swap to Entity B at initial recognition.

85. Supersede paragraph 820-10-55-50, with no link to a transition paragraph, as follows:

820-10-55-50 Paragraph superseded by Accounting Standards Update 2010-XX. ~~If the transaction price represents fair value at initial recognition and a pricing model will be used to measure fair value in subsequent periods, paragraph 820-~~

~~10-35-4 requires that the model be calibrated so that the model value at initial recognition equals the transaction price.~~

86. Amend paragraphs 820-10-55-51 through 55-59H and related headings, with no link to a transition paragraph, as follows:

> > Example 6: Restricted Assets

~~820-10-55-51 The following Cases illustrate (as discussed in paragraph 820-10-35-19(b)) the effect of restrictions in determining the fair value of an asset: The effect on a fair value measurement arising from a restriction on the sale or use of an asset by a reporting entity will differ depending on whether the restriction would be considered by market participants when pricing the asset. Cases A and B illustrate the effect of restrictions when measuring the fair value of an asset.~~

- ~~a. Restriction on sale of a security (Case A)~~
- ~~b. Restrictions on the use of an asset (Case B).~~

> > > Case A: Restriction on the Sale of Securityan Equity Instrument

~~820-10-55-52 TheA reporting entity holds a security of an issueran equity instrument (a **financial asset**) for which sale is legally restricted for a specified period. (For example, such a restriction could limit sale to qualifying investors, as may be the case underin accordance with Rule 144 or similar rules of the Securities and Exchange Commission [SEC].) The restriction is specific to (an attribute of) the securitya characteristic of the instrument and, therefore, would be transferredtransfer to market participants. In that case, the fair value of the securityinstrument would be based on the measured on the basis of the quoted price for an otherwise identical unrestricted securityequity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the securityinstrument for the specified period. The adjustment will vary depending on all of the following:~~

- a. The nature and duration of the restriction
- b. The extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors)
- c. FactorsQualitative and quantitative factors specific to both the securityinstrument and the issuer (qualitative and quantitative).

~~820-10-55-53 As discussed in Section 820-10-15, the guidance in this SubtopicTopic applies for equity securities with restrictions that terminate within~~

one year that are measured at fair value ~~under~~ in accordance with the requirements in Subtopics 320-10 and 958-320.

> > Case B: Restrictions on the Use of an Asset

820-10-55-54 A donor contributes land in an otherwise developed residential area to a not-for-profit neighborhood association—~~(Association)~~. The land is currently used as a playground. The donor specifies that the land must continue to be used by the ~~Association~~ association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the ~~Association~~ association determines that the fiduciary responsibility to meet the donor's restriction would not ~~otherwise transfer~~ be transferred to market participants if the association sold the asset ~~was to be sold by the Association~~, that is, the donor restriction on the use of the land is specific to the ~~Association~~ association. Furthermore, the association is not restricted from selling the land. ~~Absent~~ Without the restriction on the use of the land by the ~~Association~~ association, the land could be used as a site for residential development. In addition, the land ~~has~~ is subject to an easement (a legal right that enables a utility to run power lines across the land) ~~for utility lines on a portion of the property~~. Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:

- a. Donor restriction on use of land. Because in this ~~instance~~ situation the donor restriction on the use of the land is specific to the ~~Association~~ association, the restriction would not ~~transfer~~ be transferred to market participants. Therefore, the fair value of the land would be ~~based on~~ the higher of its fair value in use ~~used~~ as a playground (that is, the fair value of the asset would be maximized through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value ~~or fair value in exchange~~ as a site for residential development (that is, the fair value of the asset would be maximized through its use by market participants on a standalone basis), regardless of the restriction on the use of the land by the ~~Association~~ association.
- b. Easement for utility lines. Because the easement for utility lines is specific to ~~(an attribute that is, a characteristic)~~ the land, it would ~~transfer~~ be transferred to market participants with the land. Therefore, the fair value measurement of the land would consider the effect of ~~the~~ easement, regardless of whether the valuation premise is highest and best use is in use ~~as a playground or in exchange~~ as a site for residential development.

820-10-55-55 The donor restriction, which is legally binding on the ~~Association~~ association, would be indicated through classification of the associated net assets (permanently restricted) and disclosure of the nature of the

restriction in accordance with paragraphs 958-210-45-8 through 45-9, 958-210-50-1, and 958-210-50-3.

> > Example 7: Liabilities and Credit Risk

820-10-55-56 Paragraph ~~820-10-35-18~~ explains that ~~nonperformance~~ Nonperformance risk relating to a liability includes, but may not be limited to, the reporting entity's own credit risk. ~~That paragraph requires that the~~ A reporting entity should consider the effect of its credit risk (credit standing) on the fair value of the liability in all periods in which the liability is measured at fair value because those who ~~might~~ hold the reporting entity's obligations as assets would consider the effect of the reporting entity's credit standing ~~in determining when estimating~~ the prices they would be willing to pay. The following Cases illustrate these matters:

- a. Liabilities and credit risk, in general (Case A)
- b. Structured note (Case B).

> > > Case A: Liabilities and Credit Risk—General

820-10-55-57 This Case has the following assumptions:

- a. Entity X and Entity Y each enter into a contractual obligation to pay cash (\$500) to Entity Z in 5 years.
- b. Entity X has a AA credit rating and can borrow at 6 percent, ~~while~~ and Entity Y has a BBB credit rating and can borrow at 12 percent.
- c. Entity X will receive about \$374 in exchange for its promise (the present value of \$500 in 5 years at 6 percent).
- d. Entity Y will receive about \$284 in exchange for its promise (the present value of \$500 in 5 years at 12 percent).

The fair value of the liability to each entity (that is, the proceeds) incorporates that reporting entity's credit standing.

> > > Case B: Structured Note

820-10-55-58 This Case illustrates the effect of credit standing on the fair value of a **{add glossary link}** financial liability **{add glossary link}** at initial recognition and in subsequent periods.

820-10-55-59 On January 1, ~~2007~~20X7, Entity A, an investment bank with an AA credit rating, issues a five-year fixed rate note to Entity B. The contractual principal amount to be paid by Entity A at maturity is linked to the Standard and Poor's S&P 500 index. No credit enhancements are issued in conjunction with or otherwise related to the contract (that is, no collateral is posted and there is no third-party guarantee). Entity A elects to account for the entire note at fair value in accordance with paragraph 815-15-25-4. The fair value of the note (that is, the obligation of Entity A) during ~~2007~~20X7 is measured using an expected present value technique. Changes in fair value ~~areas follows:~~are discussed below:

- a. Fair value at January 1, ~~2007~~20X7. The expected cash flows used in the expected present value technique are discounted at the risk-free rate (~~using~~using the treasury yield curve at January 1, ~~2007~~20X7, plus the current market observable AA corporate bond spread to treasuries adjusted (either up or down) for Entity A's specific credit risk (that is, resulting in a credit-adjusted risk-free rate). Therefore, the fair value of ~~the obligation of Entity A~~Entity A's obligation at initial recognition considers nonperformance risk, including that reporting entity's credit risk (~~presumably, risk, which presumably is reflected in the proceeds~~)proceeds.
- b. Fair value at March 31, ~~2007~~20X7. During March ~~2007~~20X7, the credit spread for AA corporate bonds widens, with no changes to the specific credit risk of Entity A. The expected cash flows used in the expected present value technique are discounted at the risk-free rate (~~using~~using the treasury yield curve at March 31, ~~2007~~20X7, plus the current market observable AA corporate bond spread to treasuries, adjusted for Entity A's specific credit risk (that is, resulting in a credit-adjusted risk-free rate). Entity A's specific credit risk is unchanged from initial recognition. Therefore, the fair value of ~~the obligation of Entity A~~Entity A's obligation changes ~~due to~~as a result of changes in credit spreads generally. Changes in credit spreads reflect current market participant assumptions about changes in nonperformance risk generally and the compensation required for assuming this risk.
- c. Fair value at June 30, ~~2007~~20X7. As of June 30, ~~2007~~20X7, there have been no changes to the AA corporate bond spreads. However, ~~based on~~the basis of structured note ~~issuances~~issues corroborated with other qualitative information, Entity A determines that its own specific creditworthiness has strengthened within the AA credit spread. The

expected cash flows used in the expected present value technique are discounted at the risk-free rate (using the treasury yield curve at June 30, 2007) ~~20X7~~, plus the current market observable AA corporate bond spread to treasuries (unchanged from March 31, 2007) ~~20X7~~, adjusted for Entity A's specific credit risk (that is, resulting in a credit-adjusted risk-free rate). Therefore, the fair value of the obligation of Entity A changes ~~due to~~ as a result of the change in its own specific credit risk within the AA corporate bond spread.

> > Example 7A: ~~Measuring~~ Determining Fair Value When the Volume and Level of Activity ~~Activity~~ for the ~~an~~ Asset or a Liability Have Significantly Decreased

820-10-55-59A This Example illustrates the use of judgement when measuring the fair value of a financial asset when there has been a significant decrease in the volume and level of activity for the asset when compared with normal market activity for the asset (or similar assets). (See application of paragraphs 820-10-35-51A through 35-51H 820-10-35-54C through 35-54H.) ~~in determining fair value if the volume and level of activity for an asset or a liability have significantly decreased and in identifying transactions that are not orderly.~~ This Example has all of the following assumptions:

- a. ~~On January 1, 20X8 (the issuance date of the security), Entity A invested~~ invests in a junior AAA-rated tranche of a residential ~~mortgage backed~~ mortgage-backed security ~~On January 1, 20X8 (the issue date of the security).~~
- b. The junior tranche is the third most senior of a total of seven tranches.
- c. The underlying collateral for the residential ~~mortgage backed~~ mortgage-backed security is unguaranteed Alternative A (or Alt-A) nonconforming residential mortgage loans that were issued in the second half of ~~2006~~ 20X6.
- d. At March 31, 20X9 (the measurement date), the junior tranche ~~of the residential mortgage backed security~~ is now A-rated. This tranche of the residential ~~mortgage backed~~ mortgage-backed security was previously traded through a ~~{add glossary link}~~ brokered market ~~{add glossary link}~~; however, trading volume in that market was infrequent, with only a few transactions taking place per month from January 1, 20X8, through June 30, ~~20X8~~ 20X8, and little, if any, trading activity during the nine months before March 31, 20X9.

820-10-55-59B Entity A considers the guidance beginning factors in paragraph ~~820-10-35-51A~~ 820-10-35-54C to determine whether there has been a significant decrease in the volume and level of activity for the junior tranche of the residential ~~mortgage backed~~ mortgage-backed security in which it has invested.

After evaluating the significance and relevance of the factors, Entity A concludes that the volume and level of activity ~~for~~of the junior tranche of the residential ~~mortgage-backed~~mortgage-backed security have significantly decreased. Entity A supported its judgment primarily on the basis ~~of its observation~~ that there was little, if any, trading activity for an extended period of time before the measurement date.

820-10-55-59C Because there is little, if any, trading activity to support a ~~market approach~~valuation technique using a market approach, Entity A decides to use an income approach using the discount rate adjustment technique described beginning in paragraph 820-10-55-10 to ~~estimate~~measure the fair value for its of the residential ~~mortgage-backed~~mortgage-backed security at the measurement date. (See ~~paragraphs 820-10-35-25 through 35-26 and~~paragraph 820-10-35-36.) Entity A uses the contractual cash flows from the residential ~~mortgage-backed~~mortgage-backed security. The discount rate adjustment technique described beginning in paragraph 820-10-55-10 would not be appropriate when determining whether there has been an other-than-temporary impairment and/or a change in yield ~~under the guidance in~~accordance with paragraph 325-40-35-4 when that technique uses contractual cash flows rather than most likely cash flows.

820-10-55-59D Entity A then estimates a discount rate (that is, ~~the~~a market rate of return) ~~that will be used~~ to discount ~~the~~those contractual cash flows. The ~~available information that Entity A uses to estimate an appropriate~~ market rate of return is estimated using ~~included~~ both of the following:

- a. The risk-free rate of interest~~based on the rate of return on government debt securities~~
- b. Estimated adjustments for differences between the available market data and the junior tranche of the residential ~~mortgage-backed~~mortgage-backed security in which Entity A has invested. Those adjustments reflect available market data about expected nonperformance and other risks (for example, default risk, collateral value risk, and liquidity risk) that market participants would consider when pricing the asset in an orderly transaction at the measurement date under current market conditions.

820-10-55-59E ~~With respect to item (b) in the preceding paragraph, Entity A evaluates available market data about expected nonperformance and uncertainty risks (for example, default risk, collateral value risk, and liquidity risk) that market participants would consider in pricing the asset in an orderly transaction at the measurement date under current market conditions. In determining those adjustments, Entity A considered all of the following information when estimating the adjustments in the preceding paragraph:~~

- a. The credit spread for the junior tranche of the residential ~~mortgage backed mortgage-backed~~ security at the ~~issuance~~issue date as implied by the original transaction price
- b. The change in credit spread implied by any observed transactions from the ~~issuance~~issue date to the measurement date for comparable residential ~~mortgage backed mortgage-backed~~ ~~securities, securities~~ or based on the basis of relevant indexes
- c. The ~~specific~~ characteristics of the junior tranche of the residential ~~mortgage backed mortgage-backed~~ security compared with comparable residential ~~mortgage backed mortgage-backed~~ securities or indexes, including all of the following:
 1. The quality of the underlying ~~assets; assets~~ (that is, information about the performance of the underlying mortgage loans)~~loans~~, such as all of the following:
 - i. Delinquency rates
 - ii. Foreclosure rates
 - iii. Loss experience
 - iv. Prepayment rates.
 2. The seniority and/or subordination of the residential ~~mortgage backed mortgage-backed~~ security tranche held
 3. Other relevant factors.
- d. Relevant reports issued by analysts and rating agencies
- e. Quoted prices from third parties such as brokers or pricing services.

820-10-55-59F Entity A estimates that one indication of ~~an appropriate~~the market rate of return that market participants would use ~~in when~~ pricing the junior tranche of the residential ~~mortgage backed mortgage-backed~~ security is 12 percent (1,200 basis points). This market rate of return was estimated as follows:

- a. Begin with 300 basis points for the ~~appropriate~~relevant risk-free rate of interest at March 31, 20X9.
- b. Add 250 basis points for the credit spread over the risk-free rate ~~at issuance of Entity A's when the junior tranche of the residential mortgage backed security was issued~~ in January 20X8.
- c. Add 700 basis points for the estimated change in the credit spread over the risk-free rate ~~for Entity A's of the junior tranche of the residential mortgage backed security between January 1, 20X8 20X8, and March 31, 20X9. This estimate was based on developed on the basis of the change in the most comparable index available for the that time period between January 1, 20X8 and March 31, 20X9.~~
- d. Subtract 50 basis points (net) to adjust for differences between the index used to estimate the change in credit spreads and ~~Entity A's the junior tranche of the residential mortgage backed security. The referenced index consists of subprime mortgage loans, while whereas~~ Entity A's residential ~~mortgage backed mortgage-backed~~ security consists of Alt-A mortgage

~~loans, loans with a more favorable credit profile (making it more attractive to market participantsparticipants).~~ However, the index does not reflect an appropriate liquidity risk premium for ~~Entity A's junior tranche of the residential mortgage-backed securitythe junior tranche~~ under current market conditions. Thus, the 50 basis point adjustment is the net of ~~the followingtwo~~ adjustments.

1. The first adjustment is a 350 basis point subtraction, which was estimated by comparing the implied yield from the most recent transactions for the residential ~~mortgage-backedmortgage-backed~~ security in June 20X8 with the implied yield in the index price on those same dates. There was no information available that indicated that the relationship between Entity A's security and the index has changed.
2. The second adjustment is a 300 basis point addition, which is Entity A's best estimate of the additional liquidity risk inherent in its security (~~thea~~ cash position) when compared with the index (the synthetic position). This estimate was derived after considering liquidity risk premiums implied in recent cash transactions for a range of similar securities.

820-10-55-59G As an additional indication of ~~an appropriate~~the market rate of return, Entity A ~~also~~ considers 2 recent indicative quotes (that is, nonbinding quotes) provided by reputable brokers for the junior tranche of the residential ~~mortgage-backedmortgage-backed~~ security that imply yields of 15 to 17 percent. Entity A ~~confirms that the quotes are not based on transactions, but it is unable to evaluate the valuation technique(s) or inputs any other market data used to develop the quotes. However, Entity A is able to confirm that the quotes do not reflect the results of transactions.~~

820-10-55-59H Because Entity A has multiple indications of the ~~appropriate~~market rate of return that market participants would consider relevant in ~~estimatingwhen measuring~~ fair value, it evaluates and ~~weights, as appropriate,~~ weights the respective indications of the ~~appropriate~~rate of return, considering the reasonableness of the range indicated by the results. ~~Entity A concludes that 13 percent is the point within the range of relevant inputs that is most representative of fair value under current market conditions. Entity A placed more weight on the 12 percent estimated market rate of return (that is, its own estimate) because of both of the following:~~ **[Content amended and moved to paragraph 820-10-55-59HH]**

- a. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. Entity A concluded that its own estimate appropriately incorporated nonperformance risk (for example, default risk and collateral value risk) and liquidity risk that market participants would use to estimate the selling price of the asset in an orderly transaction in the current market.~~

- b. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. The indications of an appropriate rate of return provided by the broker quotes were nonbinding quotes that were not based on transactions. Additionally, Entity A was not able to evaluate the valuation technique(s) or significant inputs used to develop the quotes.~~ **[Content amended and moved to paragraph 820-10-55-59HH]**

87. Add paragraph 820-10-55-59HH, with no link to a transition paragraph, as follows:

820-10-55-59HH Entity A concludes that 13 percent is the point within the range of ~~relevant inputs~~ indications that is most representative of fair value under current market conditions. Entity A ~~placed~~ places more weight on the 12 percent ~~estimated market rate of return~~ indication (that is, its own estimate of the market rate of return) ~~because of both~~ for the following reasons:

- a. Entity A concluded that its own estimate appropriately incorporated ~~nonperformance risk~~ the risks (for example, default ~~risk and~~ risk, collateral value risk, and liquidity risk) ~~and liquidity risk~~ that market participants would use when pricing ~~to estimate the selling price of the asset in an orderly transaction in the~~ under current market conditions.
- b. ~~The indications of an appropriate rate of return provided by the~~ The broker quotes were nonbinding ~~quotes that were not based on~~ and did not reflect the results of transactions. ~~Additionally, and~~ Entity A was ~~not able~~ unable to evaluate the valuation technique(s) or ~~significant~~ inputs used to develop the quotes. **[Content amended as shown and moved from paragraph 820-10-55-59H]**

88. Supersede paragraph 820-10-55-59I, with no link to a transition paragraph, as follows:

820-10-55-59I ~~Paragraph superseded by Accounting Standards Update 2010-XX. Because changing the selected market rate of return would change the fair value of Entity A's junior tranche of the residential mortgage backed security significantly, Entity A voluntarily discloses that input and quantifies the effect of using other reasonably possible discount rate estimates.~~

89. Add paragraph 820-10-55-59J, with a link to transition paragraph 820-10-65-8, as follows:

~~820-10-55-59J Paragraph not used.~~ If Entity A determines that the market rate of return is an unobservable (that is, Level 3) input and the fair value measurement of the junior tranche of the residential mortgage-backed security would be categorized within Level 3 of the fair value hierarchy, Entity A would need to determine whether changing that input to a different amount that could have reasonably been used would have resulted in a significantly higher or lower fair value of the security. If so, Entity A would provide a measurement uncertainty analysis disclosure describing the effect of using that different amount and how it calculated that effect, including the effect of correlation, if any, between that input and other unobservable inputs.

~~820-10-55-59K Paragraph not used.~~

~~820-10-55-59L Paragraph not used.~~

~~820-10-55-59M Paragraph not used.~~

90. Amend paragraphs 820-10-55-60 through 55-63 and related headings, with a link to transition paragraph 820-10-65-8, as follows:

> > **Example 8: Fair Value Disclosures**

~~820-10-55-60~~ The disclosures required by paragraphs 820-10-50-2(a) through (d), 820-10-50-5(a) through (b), and 820-10-50-6A are illustrated by the following Cases:

- a. ~~Assets measured at fair value on a recurring basis (Case A)~~ Assets measured at fair value (Case A)
- b. ~~Assets measured at fair value on a recurring basis using significant unobservable inputs (Case B)~~ Fair value measurements categorized within Level 3 of the fair value hierarchy (Case B)
- c. ~~Subparagraph superseded by Accounting Standards Update 2010-XX. Assets measured at fair value on a nonrecurring basis (Case C)~~
- d. ~~Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) (Case D)~~ Disclosure—fair value measurements of investments in certain entities that calculated net asset value per share (or its equivalent) (Case D).

> > > Case A: Disclosure—Assets Measured at Fair Value on a Recurring Basis

820-10-55-61 For assets and liabilities measured at fair value on a recurring basis during the period at the reporting date, this SubtopicTopic requires quantitative disclosures about the fair value measurements separately for each class of assets and liabilities (see paragraph 820-10-50-2(a) through (b)). For assets, that information might be presented as follows. A reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2(a) through (b).

[New text in the table has not been underlined because this is a combination of two tables from paragraphs 820-10-55-61 and 820-10-55-64. Only amended text is underlined.]

(\$ in millions)

Fair Value Measurements at Reporting Date Using

Description	12/31/X9	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	12/31/XX	(Level 1)	2)	(Level 3)
Recurring fair value measurements				
Trading securities ^(a)				
Equity securities—real estate industry	\$ 93	\$ 70	\$ 23	
Equity securities—oil and gas industry	45	45		
Equity securities—other	15	15		
Total trading securities	\$ 153	\$ 130	\$ 23	
Available-for-sale debt securities				
Residential mortgage-backed securities	\$ 149		\$ 24	\$ 125
Commercial mortgage-backed securities	50			50
Collateralized debt obligations	35			35
U.S. Treasury securities	85	\$ 85		
Corporate bonds	93	9	84	
Total available-for-sale debt securities	\$ 412	\$ 94	\$ 108	\$ 210
Available-for-sale equity securities ^(a)				
Financial services industry	\$ 150	\$ 150		
Healthcare industry	110	110		
Other	15	15		
Total available-for-sale equity securities	\$ 275	\$ 275		
Total available-for-sale securities	\$ 687	\$ 369	\$ 108	\$ 210
Hedge fund investments				
Equity long/short	\$ 55	\$ 55		
Global opportunities	35	35		
Distressed High-yield debt securities	90			\$ 90
Total hedge fund investments	\$ 180	\$ 90		\$ 90
Private equity investments ^{(a)(b)}	\$ 25			\$ 25
Venture capital investments ^{(a)(b)}	10			10
Derivatives				
Interest rate contracts	57		\$ 57	
Foreign exchange contracts	43		43	
Credit contracts	38			38
Commodity futures contracts	78	\$ 78		
Commodity forward contracts	20		20	
Total derivatives	\$ 236	\$ 78	\$ 120	\$ 38
Total recurring fair value measurements	\$ 1,291	\$ 667	\$ 251	\$ 373
Nonrecurring fair value measurements				
Long-lived assets held and used ^(c)	\$ 75		\$ 75	
Goodwill ^(d)	30			\$ 30
Long-lived assets held for sale ^(e)	26		26	
Total nonrecurring fair value measurements	\$ 131		\$ 101	\$ 30

(a) Based on its analysis of the nature and risks of these securities, the reporting entity has determined that presenting them by industry is appropriate.

(a) Based on its analysis of the nature and risks of these investments, the reporting entity has determined that presenting them as a single class (b) is appropriate.

(c) In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held and used with a carrying amount of \$100 million were written down to their fair value of \$75 million, resulting in an impairment charge of \$25 million, which was included in earnings for the period.

(d) In accordance with the provisions of FASB Codification Topic 350, Intangibles—Goodwill and Other Subtopic 350-20, goodwill with a carrying amount of \$65 million was written down to its implied fair value of \$30 million, resulting in an impairment charge of \$35 million, which was included in earnings for the period.

(e) In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held for sale with a carrying amount of \$35 million were written down to their fair value of \$26 million, less cost to sell of \$6 million (or \$20 million), resulting in a loss of \$15 million, which was included in earnings for the period.

(Note: For liabilities, a similar table should be presented.)

[Content amended as shown and moved from paragraph 820-10-55-64]

Paragraph 820-10-50-2(bb) requires that the reporting entity also disclose any significant transfers to or from Levels 1 and 2 and the reasons for those transfers. Transfers to or from Level 3 are disclosed in the table illustrated in Case B (see paragraphs 820-10-55-62 through 55-63).

> > > Case B: Disclosure—Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) Fair Value Measurements in Level 3 of the Fair Value Hierarchy

820-10-55-62 For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, ~~assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, this Subtopic~~Topic requires a reconciliation of ~~the beginning and ending~~from the opening balances to the closing balances, separately balances for each class of assets and liabilities, except for derivative assets and liabilities, which may be presented net (see paragraph 820-10-50-2(c) through (d)). ~~For assets, the reconciliation might be presented as follows. A reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2(c) through (d):~~

Rollforward
(\$ in millions)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)									
	Available-for-Sale Debt Securities					Other Fund Investments			Derivatives	
	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	Hedge Fund Distressed High-Yield Debt Securities	Private Equity	Venture Capital	Derivatives Credit Contracts	Total		
Beginning balance	\$ 400.05	\$ 39	\$ 25	\$ 145	\$ 20	\$ 11	\$ 30	\$ 375		
Transfers into Level 3	60 (a) (b)									
Transfers out of Level 3	(5) (b) (c)									(5)
Total gains or losses (realized/unrealized) for the period										
Included in earnings (or changes in net assets)	(8)			7	5	(3)	5	6		
Included in other comprehensive income	(15)	(5)	(7)				(6)	(32)		
Purchases, issuances, sales, and settlements		16	17			2	18	53		
Settlements	(12)			(62)			(10)	(74)		
Ending balance	\$ 125	\$ 50	\$ 35	\$ 90	\$ 25	\$ 10	\$ 38	\$ 373		
									\$ (5)	\$ 5
										\$ 2
										\$ (1)

The amount of level 3 change in unrealized gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets held at the reporting date

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data due to because of a decrease in market activity for these securities.

(b) The company reporting entity's policy is to recognize transfers into and transfers out of Level 3 as of the actual date of the event or change in circumstances that caused the transfer.

(c) Transferred from Level 3 to Level 2 because observable market data became available for these securities.

(Note: For liabilities, a similar table should be presented.)

820-10-55-63 Gains and losses (~~realized and unrealized~~) included in earnings (or changes in net assets) for the period (above) are ~~reported~~presented in trading revenues and in other revenues as ~~follows~~follows:

	<u>Trading Revenues</u>	<u>Other Revenues</u>
Total gains or losses <u>for the period</u> included in earnings (or changes in net assets) <u>for the period</u> (as shown in the table in the preceding paragraph)	<u>\$ 5</u>	<u>\$ 1</u>
Change in unrealized gains or losses <u>for the period</u> included in <u>earnings (or changes in net assets)</u> for relating to assets still held at <u>the reporting date</u>	<u>\$ 2</u>	<u>\$ (3)</u>

(Note: For liabilities, a similar table should be presented.)

91. Supersede paragraph 820-10-55-64 and its related heading, with a link to transition paragraph 820-10-65-8, as follows:

>>> Case C: Disclosure—Assets Measured at Fair Value on a Nonrecurring Basis

820-10-55-64 Paragraph superseded by Accounting Standards Update 2010-XX. For each class of assets and liabilities measured at fair value on a nonrecurring basis during the period, this Subtopic requires disclosures about the fair value measurements (see paragraph 820-10-50-5(a) through (b)). That information might be presented as follows.

Description	Year-Ended-12/31/XX	Fair Value Measurements Using				Total Gains-(Losses)
		Quoted-Prices-in-Active-Markets-for-Identical-Assets-(Level 1)	Significant-Other-Observable-Inputs-(Level 2)	Significant-Unobservable-Inputs-(Level 3)		
Long-lived assets held and used	\$ 75		\$ 75			\$ (25)
Goodwill	30			\$ 30		(35)
Long-lived assets held for sale	26		26			(15)
						<u>\$ (75)</u>

~~In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held and used with a carrying amount of \$100 million were written down to their fair value of \$75 million, resulting in an impairment charge of \$25 million, which was included in earnings for the period.~~

~~In accordance with the provisions of FASB Codification Topic 350, Intangibles—Goodwill and Other, goodwill with a carrying amount of \$65 million was written down to its implied fair value of \$30 million, resulting in an impairment charge of \$35 million, which was included in earnings for the period.~~

~~In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of FASB Codification Subtopic 360-10, long-lived assets held for sale with a carrying amount of \$35 million were written down to their fair value of \$26 million, less cost to sell of \$6 million (or \$20 million), resulting in a loss of \$15 million, which was included in earnings for the period.~~

92. Amend paragraphs 820-10-55-64A through 55-66 and 820-10-55-68 through 55-70 and their related headings, with no link to a transition paragraph, as follows:

> > > Case D: Disclosure—Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-55-64A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 measured at fair value ~~on a recurring or nonrecurring basis~~ during the period, in addition to the disclosures required in paragraphs 820-10-50-1 through 50-2 ~~and 820-10-50-5~~, this ~~Subtopic~~Topic requires a reporting entity to disclose~~disclosure~~ of information that enables users to understand the ~~nature and risk~~nature, characteristics, and risks of the investments by class and whether the investments are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) (see paragraph 820-10-50-6A). That information may be presented as follows. (The classes presented below are provided as examples only and are not intended to be treated as a template. The classes disclosed should be tailored to the ~~nature,~~nature, characteristics, and risks of the reporting entity's investments.)

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds ^(a)	\$ 55		quarterly	30–60 days
Event driven hedge funds ^(b)	45		quarterly, annually	30–60 days
Global opportunities hedge funds ^(c)	35		quarterly	30–45 days
Multi-strategy hedge funds ^(d)	40		quarterly	30–60 days
Real estate funds ^(e)	47	\$ 20		
Private equity funds—international ^(f)	43	15		
Total	<u>\$ 265</u>	<u>\$ 35</u>		

- a. This class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 22 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 20X3.
- b. This class includes investments in hedge funds that invest in approximately 60 percent equities and 40 percent bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.
- c. This class includes investments in hedge funds that hold approximately 80 percent of the funds' investments in non-U.S. common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors and approximately 20 percent of the funds' investments in diversified currencies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. For one investment, valued at \$8.75 million, a gate has been imposed by the hedge fund manager and no redemptions are currently permitted. This redemption restriction has been in place for six

- months and the time at which the redemption restriction might lapse cannot be estimated.
- d. This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this class includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 15 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 20X3.
 - e. This class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years. Twenty percent of the total investment in this class is planned to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Company's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management must approve of the buyer before the sale of the investments can be completed.
 - f. This class includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 8 years. However, as of December 31, 20X3, it is probable that all of the investments in this class will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 20X3, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must

approve of the buyer before the sale of the investments can be completed.

> > **Example 9: Measuring Liabilities and Credit Risk**

820-10-55-65 The following Cases illustrate the measurement of liabilities and the effect of nonperformance risk (including credit risk) on a fair value measurement:

- a. Asset Retirement Obligation (Case A)
- b. Debt Obligation: Quoted Price (Case B)
- c. Debt Obligation: Present Value Technique (Case C).

> > **Case A: Asset Retirement Obligation**

820-10-55-66 On January 1, 20X1, Entity A ~~completes construction of and places into service an offshore oil platform~~ assumes an asset retirement obligation in a business combination. The reporting entity is legally required to dismantle and remove ~~the~~ an offshore oil platform at the end of its useful life, which is estimated to be 10 years. ~~According to the guidance in paragraph 410-20-25-4, the entity is required to recognize, at fair value, an asset retirement obligation.~~

820-10-55-67 On the basis of the guidance in paragraph 410-20-30-1, Entity A uses the expected present value technique to measure the fair value of the asset retirement obligation.

820-10-55-68 If Entity A ~~was~~ were contractually allowed to transfer its asset retirement obligation to a market participant, Entity A ~~believes~~ concludes that a market participant would use all of the following inputs, probability-weighted as appropriate, ~~in determining when estimating~~ the price it would expect to receive:

- a. Labor costs
- b. Allocation of overhead costs
- c. ~~Profit on labor and overhead costs~~ The compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset. Such compensation includes both of the following:
 1. Profit on labor and overhead costs
 2. The risk that the actual cash outflows ultimately might differ from those expected, excluding inflation.
- d. Effect of inflation on estimated costs and profits
- e. Subparagraph superseded by Accounting Standards Update 2010-XX. ~~Risk premium for bearing the uncertainty inherent in cash flows, other than inflation~~

- f. Time value of money, represented by the risk-free rate
- g. Nonperformance risk relating to the risk that Entity A will not fulfill the obligation liability, including Entity A's own credit risk.

820-10-55-69 The significant assumptions used in Entity A's estimate of by Entity A to measure fair value are as follows:

- a. Labor costs are based on developed on the basis of current marketplace wages, adjusted for expectations of future wage increases, required to hire contractors to dismantle and remove offshore oil platforms. Entity A assigns probability assessments to a range of cash flow estimates as follows:follows:

<u>Cash Flow Estimate</u>	<u>Probability Assessment</u>	<u>Expected Cash Flows</u>
\$ 100,000	25%	\$ 25,000
\$ 125,000	50%	62,500
\$ 175,000	25%	43,750
		<u>\$ 131,250</u>

The probability assessments are ~~based~~ developed on the basis of ~~on~~ Entity A's experience with fulfilling obligations of this type and its knowledge of the market.

- b. Entity A estimates allocated overhead and equipment operating costs using the rate it applies to labor costs (80 percent of expected labor costs). This is consistent with the cost structure of market participants.
- c. Entity A estimates the compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset as follows:~~A contractor typically adds a markup on labor and allocated internal costs to provide a profit margin on the job. The profit margin used (20 percent) represents Entity A's understanding of the operating profit that contractors in the industry generally earn to dismantle and remove offshore oil platforms. Entity A believes this rate is consistent with the rate a market participant would demand as a return for bearing the obligation.~~
 1. A third-party contractor typically adds a mark-up on labor and allocated internal costs to provide a profit margin on the job. The profit margin used (20 percent) represents Entity A's understanding of the operating profit that contractors in the industry generally earn to dismantle and remove offshore oil platforms. Entity A concludes that this rate is consistent with the rate that a market participant would require as compensation for undertaking the activity.

2. ~~A contractor would typically demand and receive a premium (market risk premium) require compensation for the risk that the actual cash outflows ultimately might differ from those expected given for bearing the uncertainty inherent in locking in today's price for a project that will not occur for 10 years. Entity A estimates the amount of that premium to be 5 percent of the expected cash flows, adjusted for inflation. [Content amended as shown and moved from paragraph 820-10-55-69(e)]~~
- d. Entity A assumes a rate of inflation of 4 percent over the 10-year period on the basis of available market data.
- e. ~~Subparagraph superseded by Accounting Standards Update 2010-XX.A contractor would typically demand and receive a premium (market risk premium) for bearing the uncertainty inherent in locking in today's price for a project that will not occur for 10 years. Entity A estimates the amount of that premium to be 5 percent of the expected cash flows, adjusted for inflation. [Content amended and moved to paragraph 820-10-55-69(c)(2)]~~
- f. The risk-free rate of interest for a 10-year maturity on January 1, 20X1, is 5 percent. Entity A adjusts that rate by 3.5 percent to reflect its risk of nonperformance (that is, the risk that it will not fulfill the obligation), including its credit risk. Therefore, the discount rate used to compute the present value of the cash flows is 8.5 percent.

820-10-55-70 Entity A ~~believes~~concludes that its assumptions would be used by market participants. In addition, Entity A does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability. As illustrated in the following table, Entity A estimates the fair value of its liability for the asset retirement obligation to be \$194,879.

	<u>Expected Cash Flows 1/1/X1</u>
Expected labor costs	\$ 131,250
Allocated overhead and equipment costs (.80 x \$131,250)	\$ 105,000
Contractor's profit markup [.20 x (\$131,250 + \$105,000)]	\$ 47,250
Expected cash flows before inflation adjustment	<u>\$ 283,500</u>
Inflation factor (4% for 10 years)	1.4802
Expected cash flows adjusted for inflation	\$ 419,637
Market-risk <u>Market risk</u> premium (.05 x \$419,637)	\$ 20,982
Expected cash flows adjusted for market risk	<u>\$ 440,619</u>
Expected present value using discount rate of 8.5% for 10 years	<u><u>\$ 194,879</u></u>

> > > **Case B: Debt Obligation: Quoted Price**

820-10-55-71 On January 1, 20X1, Entity B issues at par a \$2 million BBB-rated exchange-traded 5-year fixed-rate debt instrument with an annual 10 percent interest coupon. Entity B has elected to account for this instrument under the fair value option.

93. Amend paragraph 820-10-55-72, with no link to a transition paragraph because the proposed amendments would not result in a change in the application of the guidance, as follows:

820-10-55-72 On December 31, 20X1, the instrument is trading as an asset in an active market at \$929 per \$1,000 of par value after payment of accrued interest. Entity B uses the quoted price ~~for~~of the asset in an active market as its initial input into the fair value measurement of its liability ($\$929 \times [\$2 \text{ million} \div \$1,000] = \$1,858,000$). ~~In determining whether the quoted price for the asset in an active market represents the fair value of the liability, Entity B evaluates whether the quoted price for the asset includes the effect of factors not applicable to the fair value measurement of a liability, for example, whether the quoted price for the asset includes the effect of third-party credit enhancements. Entity B determines that no adjustments are required to the quoted price of the asset. Accordingly, Entity B concludes that the fair value of its debt instrument at December 31, 20X1, is \$1,858,000. Entity B categorizes and discloses the fair value measurement of its debt instrument as a Level 1 measurement. [Content amended and moved to paragraph 820-10-55-72A]~~

94. Add paragraph 820-10-55-72A, with no link to a transition paragraph, as follows:

820-10-55-72A In determining whether the quoted price ~~for~~of the asset in an active market represents the fair value of the liability, Entity B evaluates whether the quoted price ~~for~~of the asset includes the effect of factors not applicable to the fair value measurement of a liability, for example, whether the quoted price ~~for~~of the asset includes the effect of third-party credit enhancements. Entity B determines that no adjustments are required to the quoted price of the asset. Accordingly, Entity B concludes that the fair value of its debt instrument at December 31, 20X1, is \$1,858,000. Entity B categorizes and discloses the fair value measurement of its debt instrument as a Level 1 measurement within Level 1 of the fair value hierarchy. [Content amended as shown and moved from paragraph 820-10-55-72]

95. Amend paragraphs 820-10-55-74 through 55-76, with no link to a transition paragraph, as follows:

> > > Case C: Debt Obligation: Present Value Technique

820-10-55-73 On January 1, 20X1, Entity C issues at par in a private placement a \$2 million BBB-rated 5-year fixed-rate debt instrument with an annual 10 percent interest coupon. Entity C has elected to account for this instrument under the fair value option.

820-10-55-74 At December 31, 20X1, Entity C still carries a BBB credit rating. Market conditions, including available interest rates, credit spreads for a BBB-quality credit rating and liquidity, remain unchanged from the ~~issuance date of the debt instrument~~ was issued. However, Entity C's credit spread has deteriorated by 50 basis points ~~due to~~ because of a change in its risk of nonperformance. After considering all market conditions, Entity C concludes that if it ~~was~~ were to issue the instrument at the measurement date, the instrument would bear a rate of interest of 10.5 percent or Entity C would receive less than par in proceeds from the ~~issuance~~ issue of the instrument.

820-10-55-75 For the purpose of this example, the fair value of Entity C's liability is calculated using a present value technique. Entity C ~~believes~~ concludes that a market participant would use all of the following inputs (consistent with paragraph 820-10-55-5) ~~in determining when estimating~~ the price the market participant would expect to receive to assume Entity C's obligation:

- a. Terms of the debt instrument, including all of the following:
 1. Coupon interest rate of 10 percent
 2. Principal amount of \$2 million
 3. Term of 4 years.
- b. ~~Change in risk of nonperformance from the date of issuance of 50 basis points in the risk of nonperformance from the date of issue.~~

820-10-55-76 On the basis of its present value technique, Entity C concludes that the fair value of its liability at December 31, 20X1, is \$1,968,641. ~~Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Because Entity C's obligation is a financial liability, Entity C believes the interest rate already captures the risk or profit that a market participant would require for compensation for assuming the liability. Furthermore, Entity C does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability. [Content amended as shown and moved to paragraph 820-10-55-76A]~~

96. Add paragraph 820-10-55-76A, with no link to a transition paragraph, as follows:

820-10-55-76A Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Because Entity C's obligation is a financial liability, Entity C ~~believes~~concludes that the interest rate already captures the risk or profit that a market participant would require for compensation for assuming the liability. Furthermore, Entity C does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability. **[Content amended as shown and moved from paragraph 820-10-55-76]**

97. Add paragraphs 820-10-55-77 through 55-81 and their related heading, with a link to transition paragraph 820-10-65-8, as follows:

> > Example 10—Measurement Uncertainty Analysis

820-10-55-77 For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reporting entity to provide a measurement uncertainty analysis. The objective of that analysis is to provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy at the measurement date.

820-10-55-78 To meet that objective, this Topic requires a reporting entity to take into account the effect of correlation between unobservable inputs if such correlation is relevant when estimating the effect on the fair value measurement of a change in an unobservable input.

820-10-55-79 When disclosing how a reporting entity calculated the effect on the fair value measurement of changing one or more of the unobservable inputs to a different amount that could have reasonably been used in the circumstances, a reporting entity might compare the unobservable inputs used in the fair value measurement with the different amounts used in the measurement uncertainty analysis.

820-10-55-80 A reporting entity might disclose the following for assets when applying paragraph 820-10-50-2(f).

[For ease of readability, this new table is not underlined.]

Measurement Uncertainty Analysis for Recurring Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(\$ in millions)

	Difference in Fair Value from Using Different Unobservable Inputs That Could Have Reasonably Been Used		Significant Unobservable Inputs
	Increase in Fair Value	Decrease in Fair Value	
Available-for-sale debt securities			
Residential mortgage-backed securities	\$ 125	\$ 24	(18) Prepayment rates, probability of default, severity of loss, yield (including the effect of correlation between prepayment rates and probability of default)
Commercial mortgage-backed securities	50	13	(6) Probability of default, severity of loss, yield
Collateralized debt obligations	35	5	(3) Implied collateral valuation, default rates, housing prices
Total available-for-sale debt securities	\$ 210	\$ 42	(27)
Hedge fund investments			
High-yield debt securities	\$ 90	\$ 5	(3) Net asset value provided by the investee
Total hedge fund investments	\$ 90	\$ 5	(3)
Private equity investments			
Venture capital investments	\$ 25	\$ 4	(3) Net asset value provided by the investee
	10	3	(2) Net asset value provided by the investee
Derivatives			
Credit contracts	38	6	(5) Volatility of credit
Total derivatives	\$ 38	\$ 6	(5)
Total	\$ 373	\$ 60	(40)

(Note: For liabilities, a similar table should be presented.)

820-10-55-81 In addition, a reporting entity should provide any other information that will help users of its financial statements to evaluate the quantitative information disclosed. For example, a reporting entity might describe the relative subjectivity and limitations of the **unobservable inputs** and the range of unobservable inputs used.

98. Add paragraph 820-10-65-8 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-XX, Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

820-10-65-8 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs:

- a. A reporting entity shall apply the pending content that links to this paragraph, except the disclosure requirements, by reporting a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the pending content that links to this paragraph is initially applied. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position immediately after initial application of the pending content that links to this paragraph.
- b. A reporting entity shall disclose the pending content that links to this paragraph prospectively as of the beginning of the fiscal year in which that content is initially adopted.

Amendments to Subtopic 270-10

99. Amend paragraphs 270-10-50-1(k) and 270-10-50-7, with no link to a transition paragraph, as follows:

Interim Reporting—Overall

Disclosure

270-10-50-1 Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided

in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP]). If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

- k. The information about the use of fair value to measure assets and liabilities recognized in the statement of financial position pursuant to ~~paragraphs 820-10-50-4 through 50-6~~Section 820-10-50

270-10-50-7 The following may not represent all references to interim disclosure:

- a. For business combinations and combinations accounted for by **not-for-profit entities**, see Sections 805-10-50, 805-20-50, 805-30-50, 805-740-50, and 958-805-50.
- b. For compensation-related costs, see paragraphs 715-60-50-3 and 715-60-50-6.
- c. For disclosures required for entities with oil- and gas-producing activities, see paragraph 932-270-50-1.
- d. For disclosures related to prior interim periods of the current fiscal year, see paragraph 250-10-50-11.
- e. For fair value requirements, see ~~paragraphs 820-10-50-1 through 50-6~~Section 820-10-50.
- f. For guarantors, see Section 460-10-50.
- g. For pensions and other postretirement benefits, see paragraphs 715-20-50-6 through 50-7.
- h. For reportable segments, see paragraphs 280-10-50-39 and 280-10-55-16.
- i. For suspended well costs and interim reporting, see Section 932-235-50.
- j. For applicability of disclosure requirements related to risks and uncertainties, see paragraph 275-10-15-3

100. Amend paragraph 270-10-60-1, with no link to a transition paragraph, as follows:

Relationships

270-10-60-1 For additional disclosure guidance for the reporting entity, see paragraphs 820-10-50-1 through 50-3 Section 820-10-50.

Amendments to Subtopic 715-20

101. Amend paragraph 715-20-50-1(d), with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Disclosure

715-20-50-1 An employer that sponsors one or more defined benefit pension plans or one or more defined benefit other postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented. All of the following shall be disclosed:

- d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:
 1. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
 2. The classes of plan assets
 3. The inputs and valuation techniques used to measure the fair value of plan assets
 4. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
 5. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

 - i. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to (ii) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than

one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in (ii) below, a description of the significant investment strategies of those funds shall be provided.

- ii. The fair value of each class of plan assets as of each date for which a statement of financial position is presented. ~~Asset classes shall be based on the nature and risks of assets in an employer's plan(s).~~ For additional guidance on determining appropriate classes of plan assets, see paragraph ~~820-10-50-2A~~ ~~820-10-50-2C~~. Examples of classes of assets could include, but are not limited to, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraph 715-20-50-1(d)(1) through (5) in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.
- iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets as described in (ii) above, as appropriate.
- iv. Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant observable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to (ii) above for each annual period:

01. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). The guidance in paragraph 820-10-35-37 is applicable.
02. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
 - A. Actual Return on Plan Assets (Component of **Net Periodic Postretirement Benefit Cost**) or Actual Return on Plan Assets (Component of **Net Periodic Pension Cost**), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
 - B. Purchases, sales, and **settlements**, net
 - C. Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)
03. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

Amendments to Subtopic 805-30

102. Amend paragraph 805-30-50-4, with no link to a transition paragraph, as follows:

Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred

Disclosure

805-30-50-4 Paragraph 805-10-50-5 identifies the second objective of disclosures about the effects of business combinations that occurred in the current or previous reporting periods. To meet the objective in that paragraph, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

- a. For each reporting period after the acquisition date until the entity collects, sells, or otherwise loses the right to a contingent consideration

asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires, all of the following:

1. Any changes in the recognized amounts, including any differences arising upon settlement
 2. Any changes in the range of outcomes (undiscounted) and the reasons for those changes
 3. The disclosures required by ~~paragraphs 820-10-50-1 through 50-3~~Section 820-10-50.
- b. A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period as required by paragraph 350-20-50-1.

Amendments to Subtopic 815-20

103. Amend paragraph 815-20-25-104(b), with no link to a transition paragraph, as follows:

Derivatives and Hedging—Hedging—General

Recognition

815-20-25-104 All of the following conditions apply to both fair value hedges and cash flow hedges:

- b. If the hedging instrument is solely an interest rate swap, the fair value of that interest rate swap at the inception of the hedging relationship must be zero, with one exception. The fair value of the swap may be other than zero at the inception of the hedging relationship only if the swap was entered into at the relationship's inception, the transaction price of the swap was zero in the entity's principal market (or most advantageous market), and the difference between transaction price and fair value is attributable solely to differing prices within the bid-ask spread between the entry transaction and a hypothetical exit transaction. The guidance in the preceding sentence is applicable only to transactions considered *at market* (that is, transaction price is zero exclusive of commissions and other transaction costs, as discussed in ~~820-10-35-7~~paragraph 820-10-35-9B). If the hedging instrument is solely an interest rate swap that at the inception of the hedging relationship has a positive or negative fair value, but does not meet the one exception specified in this paragraph, the shortcut method shall not be used even if all the other conditions are met.

Amendments to Subtopic 825-10

104. Amend paragraph 825-10-50-10, with a link to transition paragraph 820-10-65-8, as follows:

Financial Instruments—Overall

Disclosure

> Fair Value of Financial Instruments

825-10-50-10 ~~AAA~~ reporting entity shall disclose all of the following:

- a. Either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments for which it is practicable to estimate that value
- b. The method(s) and significant assumptions used to estimate the fair value of financial instruments
- c. A description of the changes in the method(s) and significant assumptions used to estimate the fair value of financial instruments, if any, during the ~~period~~ period
- d. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

For financial instruments recognized at fair value in the statement of financial position, the disclosure requirements of Topic 820 also apply.

105. Amend paragraph 825-10-55-10, with no link to a transition paragraph, as follows:

Implementation Guidance and Illustrations

825-10-55-10 The following table represents the fair value tabular disclosure under ~~paragraphs 820-10-50-2(b) and 820-10-50-5(b)~~ paragraph 820-10-50-2(b), supplemented to do both of the following:

- a. Provide information about where in the income statement changes in fair values of assets and liabilities reported at fair value are included in earnings
- b. Voluntarily integrate selected disclosures required annually by the General Subsection of 825-10-50.

Disclosures required by paragraphs 825-10-50-28(c) and 825-10-50-30(a) are illustrated in the narrative disclosure that follows the table.

[Because there were no changes to the table, it is not shown here.]

Amendments to Subtopic 926-605

106. Amend paragraph 926-605-25-16, with no link to a transition paragraph, as follows:

Entertainment—Films—Revenue Recognition

Recognition

926-605-25-16 A discounted cash flows model is often used to estimate fair value. Paragraphs 39 ~~to~~through 71 of FASB Concepts Statement No. 7, **{Add italics}**Using Cash Flow Information and Present Value in Accounting Measurements**{Add italics}**, provide guidance on the traditional and expected cash flow approaches to present value measurements. See paragraphs ~~820-10-35-78~~820-10-35-9B and 820-10-55-4.

Amendments to Subtopic 958-30

107. Amend paragraph 958-30-50-1, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Split-Interest Agreements

Disclosure

958-30-50-1 The notes to financial statements shall include all of the following disclosures related to **split-interest agreements**:

- a. A description of the general terms of existing split-interest agreements
- b. Assets and liabilities recognized under split-interest agreements, if not reported separately from other assets and liabilities in a statement of financial position
- c. The basis used (for example, cost, lower of cost or market, fair market value) for recognized assets
- d. The discount rates and actuarial assumptions used, if present value techniques are used in reporting the assets and liabilities related to split-interest agreements
- e. **Contribution** revenue recognized under such agreements, if not reported as a separate line item in a statement of activities

- f. Changes in the value of split-interest agreements recognized, if not reported as a separate line item in a statement of activities
- g. The disclosures required by the Fair Value Option Subsections of Subtopic 825-10, if a **not-for-profit entity** (NFP) elects the **fair value** option pursuant to paragraph 958-30-35-2(b) or 958-30-35-2(c)
- h. The disclosures required by paragraphs 820-10-50-1 through ~~50-250-2E~~ in the format described in paragraph 820-10-50-8, if the asset and liabilities of split-interest agreements are measured at fair value on a recurring basis in periods after initial recognition.

Amendments to Subtopic 958-310

108. Amend paragraph 958-310-35-1, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Receivables

Subsequent Measurement

958-310-35-1 The Fair Value Option Subsections of Subtopic 825-10 create a **fair value** option under which a **not-for-profit entity** (NFP) may irrevocably elect fair value as the initial and subsequent measure for most receivables. If an NFP elects to measure a receivable at fair value and uses a present value technique to measure fair value, the discount rate assumptions, and all other elements discussed in paragraph 820-10-55-5 shall be revised at each measurement date to reflect current market conditions. Paragraph ~~820-10-35-19~~820-10-35-2B states that market participant assumptions should consider assumptions about the effect of a restriction on the sale or use of an asset if market participants would consider the effect of the restriction in pricing the asset. Example 6 (see paragraph 820-10-55-51) illustrates that restrictions that are an attribute of an asset and, therefore, would transfer to a market participant are the only restrictions reflected in fair value. Donor restrictions that are specific to the donee are reflected in the classification of **net assets**, not in the measurement of fair value.

109. Amend paragraph 958-310-50-3, with no link to a transition paragraph, as follows:

Disclosure

958-310-50-3 If unconditional promises to give are subsequently measured at **fair value**, the notes to financial statements shall also include the following disclosures:

- a. Disclosures required by paragraphs 820-10-50-1 through ~~50-250-2E~~ in the format described in paragraph 820-10-50-8
- b. Disclosures required by paragraphs 825-10-50-28 through 50-31
- c. Disclosures required by paragraph 825-10-50-32, if an election to report unconditional promises to give is made after initial recognition pursuant to paragraph 825-10-25-4(e).

Amendments to Subtopic 958-605

110. Amend paragraph 958-605-30-3, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Revenue Recognition

Initial Measurement

958-605-30-3 Paragraph ~~820-10-35-19~~820-10-35-2B states that market participant assumptions should consider assumptions about the effect of a restriction on the sale or use of an asset if market participants would consider the effect of the restriction in pricing the asset. Example 6 (see paragraph 820-10-55-51) illustrates that restrictions that are an attribute of an asset, and, therefore, would transfer to a market participant, are the only restrictions reflected in fair value. Donor restrictions that are specific to the donee are reflected in the classification of net assets, not in the measurement of fair value.

Amendments to Subtopic 958-805

111. Amend paragraph 958-805-50-16, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Business Combinations

Disclosure

958-805-50-16 To meet the objective in paragraph 805-10-50-5, an NFP acquirer shall disclose the information in this paragraph and paragraph 805-10-50-6 for each material acquisition or in the aggregate for individually immaterial business combinations that are material collectively. For each reporting period after the acquisition date until the NFP acquirer collects, sells, or otherwise loses the right to a contingent consideration asset, or until the NFP acquirer settles a contingent consideration liability or the liability is cancelled or expires, the NFP acquirer shall disclose all of the following:

- a. Any changes in the recognized amounts, including any differences arising upon settlement
- b. Any changes in the range of outcomes (undiscounted) and the reasons for those changes
- c. The disclosures required by ~~paragraphs 820-10-50-1 through 50-3~~Section 820-10-50.

Amendments to Master Glossary

112. Amend the following Master Glossary terms, with no link to a transition paragraph, as follows:

Active Market

~~An active market for an asset or liability is a~~ A market in which transactions for the asset or liability occurtake place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Brokered Market

~~In a brokered market,~~ A market in which brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.

Cost Approach

~~The cost approach is a~~ A valuation technique based on that reflects the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost).

Dealer Market

~~In a dealer market,~~ A market in which dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically, bid and ask prices (representing the price the dealer is willing to pay and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (where prices are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC) are dealer markets. For example, the market for U.S. Treasury securities is a dealer market. Dealer markets also exist for some other assets and liabilities, including other financial instruments, commodities, and physical assets (for example, certain used equipment).

Discount Rate Adjustment Technique

~~The discount rate adjustment technique is a~~ A present value technique that uses a risk-adjusted discount rate and contractual, promised, or most likely cash flows.

Exchange Market

~~An active exchange market is a~~ A market in which closing prices are both readily available and generally representative of fair value. An example of such a market is the New York Stock Exchange.

Income Approach

~~The income approach uses valuation techniques to~~ Valuation techniques that convert future amounts (for example, cash flows or earnings income and expenses) to a single (discounted) present amount (discounted). The fair value measurement is based determined on the basis of the value indicated by current market expectations about those future amounts.

Incremental Direct Costs

Incremental direct costs to sell an asset or transfer a liability refer to those costs that are directly attributable to the disposal of an asset or the transfer of a liability and meet both of the following criteria:

- a. They result directly from and are essential to that transaction.
- b. They would not have been incurred by the reporting entity had the decision to sell the asset ~~for~~ transfer the liability ~~liability~~ not been made (similar to cost to sell, as defined in paragraph 360-10-35-38).

Inputs

~~Inputs refer broadly to the~~ The assumptions that market participants would use in when pricing the asset or liability, including assumptions about risk, for example, either of the following:

- a. The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model)
- b. The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 Inputs

~~Level 1 inputs are quoted~~ Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to can access at the measurement date.

Level 2 Inputs

~~Level 2 inputs are inputs~~ Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs

~~Level 3 inputs are unobservable~~Unobservable inputs for the asset or liability.

Market Approach

A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets or liabilities (including a business).

Nonperformance Risk

~~Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred.~~The risk that an entity will not fulfill an obligation. Nonperformance risk affects the value at which the liability is transferred. Nonperformance risk ~~includes~~includes, but may not be limited ~~to~~to, the reporting entity's own credit risk.

Observable Inputs

~~Observable inputs are inputs that~~Inputs that are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that market participants would use ~~in~~when pricing the asset or liability—developed based on market data obtained from sources independent of the reporting entity.

Orderly Transaction

~~An orderly transaction is a~~A transaction that assumes exposure to the market for a period ~~prior to~~before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Present Value

Present value is a tool used to link ~~uncertain~~ future amounts (cash flows or values) to a present amount using a discount rate (an application of the income approach) ~~that is consistent with value-maximizing behavior and capital market equilibrium.~~ Present value techniques differ in how they adjust for risk and in the type of cash flows they use. See **Discount Rate Adjustment Technique**.

Principal-to-Principal Market

~~Principal-to-principal~~A market in which transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be released publicly.

Risk Premium

Compensation generally sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a risk adjustment.

Systematic Risk

~~The systematic (or nondiversifiable risk) of an asset (or liability) refers to the~~The amount by which the an asset (or liability) or a liability increases the variance of a diversified portfolio when it is added to that portfolio. Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic ~~or nondiversifiable~~ risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.) Also referred to as nondiversifiable risk.

Transaction Costs

~~Transaction costs represent the~~The incremental direct costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. Transaction costs are not an attribute of the asset or liability; rather, they are specific to the transaction and will differ depending on how the reporting entity transacts. **[Content amended and moved to paragraph 820-10-35-9B]** ~~However, transaction costs do not include the costs that would be incurred to transport the asset or liability to (or from) its principal (or most advantageous) market.~~ **[Content amended and moved to paragraph 820-10-35-9C]**

Unit of Account

~~That which is being measured by reference to the~~The level at which an asset or a liability is aggregated (or disaggregated) or disaggregated in a Topic.

Unobservable Inputs

~~Unobservable inputs are inputs that reflect the reporting entity's own assumptions—~~Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use ~~in~~when pricing the asset or liability—developed based on the best information available in the circumstances.

Unsystematic Risk

The risk specific to a particular asset or ~~liability, also~~liability. Also referred to as diversifiable risk.

113. Amend the following Master Glossary terms, with a link to transition paragraph 820-10-65-8, as follows:

Highest and Best Use

~~In broad terms, the~~The use of ~~an~~ a nonfinancial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (for example, a business) within which the asset would be used.

Market Participants

~~Market participants are buyers~~Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- a. Independent of ~~the reporting entity~~each other, ~~(that that is, they are not related parties)~~parties, ~~although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms~~
- b. Knowledgeable, having a reasonable understanding about the asset or liability and the transaction ~~based on~~using all available information, including information that might be obtained through due diligence efforts that are usual and customary
- c. Able to ~~transact~~enter into a transaction for the asset or liability
- d. Willing to ~~transact~~enter into a transaction for the asset or liability ~~(that, that is, they are motivated but not forced or otherwise compelled to do so)~~so.

Most Advantageous Market

~~The most advantageous market is the market in which the reporting entity would sell an asset or transfer a liability with the price~~The market that maximizes the amount that would be received ~~for to sell~~ the asset or minimizes the amount that would be paid to transfer the liability, after considering transaction costs and transportation costs in the respective market(s). ~~The most advantageous market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities.~~

Principal Market

~~The principal market is the market in which the reporting entity would sell the asset or transfer the liability~~The market with the greatest volume and level of activity for the asset or liability. ~~The principal market (and thus, market participants) should be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities.~~

114. Add the following terms to the Master Glossary, with a link to transition paragraph 820-10-65-8, as follows:

Currency Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Other Price Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

115. Add the following Master Glossary terms to Subtopic 820-10, with a link to transition paragraph 820-10-65-8, as follows:

Liability Issued with an Inseparable Third-Party Credit Enhancement

A liability that is issued with a credit enhancement obtained from a third party, such as debt that is issued with a financial guarantee from a third party that guarantees the issuer's payment obligation.

Market Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises the following:

- a. **Interest rate risk**
- b. **Currency risk**
- c. **Other price risk.**

Transportation Costs

The costs that would be incurred to transport an asset to or from its principal (or most advantageous) market.

116. Supersede the following Master Glossary terms, with no link to a transition paragraph, as follows:

General Market Risk

See **Systematic Risk**.

Obsolescence

~~Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (based on specified service lives). [Content moved to paragraph 820-10-35-35]~~

The amendments in this proposed Update were approved for publication by the unanimous vote of the five members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*
Thomas J. Linsmeier
Leslie F. Seidman
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the FASB's considerations in reaching the conclusions in this proposed Update. It includes the reasons for accepting some approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this proposed Update are the result of the FASB's discussions with the IASB about measuring fair value and disclosing information about fair value measurements.

BC3. The IASB will develop a Basis for Conclusions to accompany its IFRS on fair value measurement once the Boards have completed their deliberations after the comment period on their respective Exposure Drafts. That Basis for Conclusions will summarize the IASB's considerations in reaching the conclusions in its fair value measurement standard.

Background Information

BC4. The FASB and the IASB began developing their fair value measurement standards separately. In 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, which became effective in November 2007 (now in Topic 820). Topic 820 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

BC5. In September 2005, when the FASB had nearly completed its deliberations for developing Statement 157, the IASB added a project to its agenda to clarify the meaning of fair value and to provide guidance for its application in IFRSs. In November 2006, as a first step in the IASB's process to develop a fair value measurement standard, the IASB issued a Discussion Paper, *Fair Value Measurements*, using Statement 157 as a basis for forming its preliminary views because of the consistency of that Statement with the existing fair value measurement guidance in IFRSs and the need for increased convergence of U.S. GAAP with IFRSs.

BC6. In May 2009, the IASB issued an Exposure Draft, *Fair Value Measurement*, which proposed a definition of fair value, a framework for

measuring fair value, and disclosures about fair value measurements. Because the proposals in the IASB Exposure Draft were developed on the basis of the requirements of Statement 157 (now Topic 820), there were many similarities. However, some of those proposals were different and many of them used wording that was similar, but not identical, to the wording in Topic 820. As a result, respondents to the IASB Exposure Draft asked the IASB and the FASB to work together to develop common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs.

BC7. In response to that request, the FASB and the IASB agreed at their joint meeting in October 2009 to work together to achieve that goal. To do that, the Boards needed to ensure that fair value would have the same meaning in U.S. GAAP and IFRSs and that the fair value measurement and disclosure requirements would be the same (except for minor differences in wording and style).

BC8. The Boards believe that having common fair value measurement and disclosure requirements would improve the comparability of financial statements prepared in accordance with U.S. GAAP and IFRSs. In addition, having common requirements would reduce diversity in the application of fair value measurement guidance and simplify financial reporting. As a result, the FASB agreed to consider comments received on the IASB Exposure Draft on fair value measurement and to propose amendments to U.S. GAAP to achieve that goal.

BC9. The Boards began their joint discussions in January 2010. They discussed nearly all of the issues together so that each Board would benefit from hearing the rationale for the other Board's decisions on each issue. In their discussions, the Boards focused on analyzing the differences between the requirements in Topic 820 and the proposals in the IASB Exposure Draft, the comments received on the IASB Exposure Draft (including comments received from participants in the IASB's roundtable meetings held in November and December of 2009), and the feedback received about the implementation of Topic 820 (for example, issues discussed by the FASB's Valuation Resource Group). The Boards completed their initial discussions in March 2010.

BC10. The Boards will resume their discussions after the exposure periods of their respective Exposure Drafts end. The FASB and the IASB will jointly consider the comments received on the amendments in this proposed Update and on the proposal in the IASB Exposure Draft on the measurement uncertainty analysis disclosure.

BC11. Since Statement 157 was issued, the Board has issued additional guidance about fair value measurements and disclosures. That guidance includes the following:

- a. FASB Staff Position (FSP) FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*
- b. FSP FAS 157-2, *Effective Date of FASB Statement No. 157*
- c. FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*
- d. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*
- e. Emerging Issues Task Force (EITF) Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement"
- f. Accounting Standards Update No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value*
- g. Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*
- h. Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.*

Scope

BC12. The Boards separately discussed the scopes of their respective fair value measurement standards because of the differences between U.S. GAAP and IFRSs on the measurement bases specified in other standards for both initial recognition and subsequent measurement.

BC13. Topic 820 applies to all reporting entities, transactions, and instruments that require or permit fair value measurements or disclosures about fair value measurements with specific exceptions and qualifications that are specified in Section 820-10-15. The Board decided not to amend the scope of Topic 820 because the Board was not aware of any issues with the current scope.

BC14. The Board decided to clarify in this proposed Update that the measurement requirements of Topic 820 apply when measuring for disclosure purposes the fair value of assets and liabilities that are not recognized in the statement of financial position, but for which fair value is disclosed. However, the disclosures required by Topic 820 are not required for assets and liabilities that are not recognized at fair value in the statement of financial position unless another Topic specifies that a reporting entity is required to make such disclosures.

Accounting Guidance

Overall Amendments

BC15. To meet the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs, the Board is proposing amendments to U.S. GAAP that would change the wording used to describe many of the principles and requirements for measuring fair value and disclosing information about fair value measurements.

BC16. In most cases, the Board does not intend for the proposed amendments to change the meaning of current fair value measurement guidance or how that guidance is applied. However, some of the proposed amendments would clarify the Board's intent about the application of existing fair value measurement requirements or would change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. That could potentially result in changes in the amounts presented in a reporting entity's financial statements.

Highest and Best Use and Valuation Premise

BC17. Topic 820 currently specifies that the concepts of highest and best use and valuation premise apply when measuring the fair value of assets, but does not distinguish between financial and nonfinancial assets. In its deliberations with the IASB, the Board considered the IASB's rationale for the proposal in its Exposure Draft on fair value measurement that those concepts do not apply to financial assets or to liabilities. The IASB reached that conclusion because of the following:

- a. Financial assets do not have alternative uses because a financial asset has specific contractual terms and can only have a different use if the characteristics of the financial asset (that is, the contractual terms) are changed. However, a change in characteristics causes that particular asset to become a different asset. The objective of a fair value measurement is to measure the asset that exists at the measurement date.
- b. Even though a reporting entity may be able to change the cash flows associated with a liability by discharging it in different ways, the different ways of discharging a liability are not alternative uses. Moreover, although a reporting entity might have entity-specific advantages or disadvantages that enable it to fulfill a liability more or less efficiently than other market participants, those entity-specific factors do not affect fair value.

- c. The concepts were originally developed within the valuation profession to value nonfinancial assets, such as land.

BC18. The Board agreed with the IASB that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets. That is, those concepts are not relevant when measuring the fair value of financial assets or of liabilities. Paragraphs BC21 through BC32 below describe the Boards' rationale in developing the requirements for measuring the fair value of financial assets and financial liabilities.

Removing the Terms *In-Use* and *In-Exchange*

BC19. Topic 820 and the IASB Exposure Draft on fair value measurement both use the terms *in-use* and *in-exchange* to describe the valuation premise for a fair value measurement. Many respondents to the IASB Exposure Draft found the terms to be confusing because they thought the terminology did not accurately reflect the objective of the valuation premise. In addition, some respondents thought that the in-use valuation premise could be confused with *value in use*, which is a term used in IAS 36, *Impairment of Assets*.

BC20. The Board decided to remove those terms altogether and instead describe the objective of the valuation premise. The valuation premise assumes that an asset would be used either (a) in combination with other assets or with other assets and liabilities (formerly referred to as *in use*) or (b) on a standalone basis (formerly referred to as *in exchange*). The Board believes that the change would improve the understandability of the guidance for applying the valuation premise concept.

Measuring the Fair Value of Financial Assets and Financial Liabilities When a Reporting Entity Has Offsetting Positions in Market Risks or Counterparty Credit Risk

BC21. A reporting entity that holds a group of financial assets and financial liabilities is exposed to market risks (that is, interest rate risk, currency risk, or other price risk) and to the credit risk of each of the counterparties. Financial institutions and similar reporting entities in the United States and internationally that hold financial assets and financial liabilities often manage those instruments on the basis of the reporting entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty. Therefore, the Boards believe it is important that U.S. GAAP and IFRSs have the same requirements for measuring the fair value of financial instruments.

BC22. The guidance in U.S. GAAP and IFRSs for measuring the fair value of financial instruments is articulated differently. In U.S. GAAP, many reporting entities currently apply the in-use valuation premise when measuring the fair value of financial assets and financial liabilities that have offsetting positions in a particular market risk (or risks) or in the credit risk of a particular counterparty when those risks are managed on the basis of the reporting entity's net exposure to either of those risks. That is, a reporting entity takes into account how the fair value of each financial asset or financial liability might be affected by the combination of that asset or liability with other financial assets or financial liabilities held by the reporting entity.

BC23. Other reporting entities apply the in-exchange valuation premise to the reporting entity's net risk exposure and assume that the transaction is for the net position, not for the individual assets and liabilities comprising that position. Those differing applications of the valuation premise arose because the guidance in Topic 820 does not specify the valuation premise for financial assets.

BC24. In IFRSs, reporting entities apply the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, which permits reporting entities to take into account the effects of offsetting positions in the same market risk (or risks) when measuring the fair value of financial instruments.

BC25. The Boards understand that although those approaches are articulated differently in U.S. GAAP and IFRSs, they result in similar fair value measurement conclusions in many cases. However, the Board is aware that the guidance currently in Topic 820 could be interpreted more broadly than the Board intended, such as when a reporting entity uses the in-use valuation premise to measure the fair value of a group of financial assets when the reporting entity does not have offsetting positions (that is, financial liabilities) in a particular market risk (or risks) or counterparty credit risk.

BC26. The Board believes that the accounting for financial instruments should provide information about the risks inherent in financial instruments on the basis of how a reporting entity manages its business so that users of financial statements can assess the amounts, timing, and uncertainty of future cash flows. That is reflected in the Board's decisions in its project on the accounting for financial instruments, which reflects a *business strategy* approach for the accounting for financial instruments.

BC27. However, the guidance for measuring the fair value of financial instruments, including those that are managed on the basis of a reporting entity's net risk exposure, does not clearly articulate the relationship between a reporting entity's business strategy and the fair value measurement of financial instruments that are managed in that way. For example, Topic 820 does not

explicitly address how the following meet the objective of a fair value measurement for financial instruments:

- a. Reporting entities typically do not manage their exposure to market risks and credit risk by selling a financial asset or transferring a financial liability (for example, by unwinding a transaction). Rather, they manage their risk exposure by entering into a transaction for another financial instrument (or instruments) that would result in an offsetting position in the same risk.
- b. The resulting measurement represents the fair value of the net risk exposure, not of an individual financial instrument. The sum of the fair values of the individual instruments is not equal to the fair value of the net risk exposure.
- c. A reporting entity's net risk exposure is a function of the other financial instruments held by the reporting entity and of the reporting entity's risk preferences (both of which are entity-specific decisions and, thus, do not form part of a fair value measurement). Market participants might hold different groups of financial instruments or might have different risk preferences, and it is those factors that are taken into account when measuring fair value. However, the Board understands that market participants holding that particular group of financial instruments and with those particular risk preferences would be likely to price those financial instruments in the same way (that is, using the same valuation techniques and the same market data). As a result, the measurement of those financial instruments within that particular group is a market-based measurement.

BC28. As a result, the Board decided to permit an exception to the requirements in Topic 820 for measuring fair value when a reporting entity manages its financial assets and financial liabilities on the basis of the reporting entity's net exposure to market risks or counterparty credit risk. That exception permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. That exception also applies to derivatives that the reporting entity is required to or has elected to measure at fair value in accordance with the guidance in Topic 815, Derivatives and Hedging, or in Topic 825, Financial Instruments.

BC29. The Board decided to specify that to be able to use that exception, a reporting entity must provide evidence that it manages its financial instruments on the basis of the reporting entity's net exposure to those risks on a consistent basis. Evidence that the reporting entity is managing its financial instruments in that way includes having a documented risk management or investment strategy

describing the management of financial instruments within the organization and providing information about the net risk exposure to management. Furthermore, the Board decided to specify that the reporting entity must be required (or must have elected, for example, under the fair value option) to measure the financial instruments at fair value on a recurring basis.

BC30. In addition, the Board decided to specify that the market risks that are being offset must be substantially the same for a reporting entity to be able to use that exception. The Board concluded that a reporting entity should be permitted to apply the bid-ask spread guidance in this Topic to the reporting entity's net position in a particular market risk (rather than to each individual financial instrument comprising that position) when the market risks that are being offset are substantially the same. For example, a reporting entity may apply that exception when it uses that group of financial instruments to identify and manage its exposure to a particular type of interest rate risk alone, not when the reporting entity uses that group of financial instruments to manage all market risks to which the entity is exposed.

BC31. The Board also decided to specify that the reporting entity may consider its net exposure to counterparty credit risk only when there is a legally enforceable right of offset (for example, a master netting agreement) with the counterparty in the event of default. Without a legally enforceable right of offset, the Board believes that market participants would take into account the gross exposure, rather than the net exposure, to the credit risk of a particular counterparty when measuring fair value.

BC32. The Board noted that the group of financial assets and financial liabilities for which a reporting entity manages its net exposure to a particular market risk (or risks) might differ from the group of financial assets and financial liabilities for which a reporting entity manages its net exposure to the credit risk of a particular counterparty.

Application of Blockage Factors and Other Premiums and Discounts in a Fair Value Measurement

BC33. Topic 820 generally prohibits any adjustment to a quoted price in an active market for an identical asset or liability (including a blockage factor or other premiums or discounts) for a fair value measurement categorized within Level 1 of the fair value hierarchy. However, Topic 820 does not specify whether a blockage factor (or another premium or discount, such as a control premium or a noncontrolling interest discount), can be applied in a fair value measurement categorized within Level 2 or Level 3 of the fair value hierarchy.

BC34. The IASB Exposure Draft on fair value measurement proposed an amendment to IAS 39 specifying that the unit of account for a financial instrument is the individual financial instrument at all levels of the fair value hierarchy. That proposal effectively would prohibit the application of blockage factors and other premiums and discounts in a fair value measurement categorized within any level of the fair value hierarchy for financial instruments within the scope of IAS 39.

BC35. The IASB proposed that guidance for the following reasons:

- a. The unit of account for a financial instrument should not change because of the instrument's categorization within the fair value hierarchy.
- b. Market participants will enter into a transaction to sell a financial instrument at the most advantageous price for the instrument. A reporting entity's decision to sell at a less advantageous price because it sells an entire holding rather than each instrument individually is a factor specific to that reporting entity.

BC36. That proposal was consistent with Topic 820 for fair value measurements categorized within Level 1 of the fair value hierarchy, but it was interpreted by respondents as being inconsistent with Topic 820 for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy. Most respondents to the IASB Exposure Draft on fair value measurement did not support the IASB's proposal on blockage factors because, in their view, reporting entities do not typically exit a position on an individual instrument basis (for example, entering into a transaction to sell a single share of common stock). As a result, they believe the fair value measurement should reflect the fair value of the *holding*, not of each individual instrument comprising the holding (that is, they do not agree that the unit of account for a financial instrument should be the individual instrument). The FASB received similar comments when Statement 157 was issued.

BC37. The comments received on the IASB Exposure Draft also indicated that respondents have different interpretations about what the term *blockage factor* means. For example, some respondents thought the IASB intended to prohibit the application of a premium or discount (such as a control premium) even when market participants would take into account a premium or discount when pricing the asset or liability for that unit of account (for example, a controlled investment accounted for in accordance with IAS 27).

BC38. As a result of those comments, as well as the comments the FASB has received from its constituents about the implementation of Topic 820 on the application of blockage factors and other premiums or discounts in a fair value measurement, the Board concluded that it is necessary to clarify what a *blockage*

factor is and to specify whether and, if so, when a blockage factor or another premium or discount should be taken into account in a fair value measurement.

BC39. The Board concluded that the current description of a blockage factor in U.S. GAAP accurately describes what a blockage factor is. Topic 820 states that a blockage factor is an adjustment to a quoted price for an asset or a liability when the normal daily trading volume for the asset or liability is not sufficient to absorb the quantity held and placing orders to sell the asset or liability in a single transaction might affect the quoted price. Blockage factors are most commonly observed in transactions for financial instruments, such as equity or debt securities. The description of a blockage factor in this proposed Update is unchanged from the description in Topic 820.

BC40. However, Topic 820 does not distinguish between a blockage factor, as described in the preceding paragraph, and other premiums and discounts, nor does it describe those other premiums or discounts (with the exception of an adjustment for liquidity risk, which is described in the guidance for measuring the fair value of an asset or a liability in an inactive market). Other Topics, such as the guidance in Topic 350, Intangibles—Goodwill and Other, and the guidance in Topic 805, Business Combinations, refer to the application of control premiums and noncontrolling interest discounts.

BC41. The Board decided to use the principle underlying a fair value measurement (that is, a fair value measurement takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability given the unit of account specified in another Topic) when describing the application of other premiums and discounts in a fair value measurement. Therefore, the amendments in this proposed Update specify that a reporting entity would apply a premium or discount in a fair value measurement if market participants would take into account such a premium or discount when pricing the asset or liability given the unit of account specified in another Topic (for example, a market participant is likely to consider a control premium when pricing a reporting unit). The Board decided not to provide detailed descriptions of other premiums and discounts or to provide detailed guidance about their application in a fair value measurement. The Board concluded that such descriptions and guidance would be too prescriptive and that the application of such premiums and discounts depends on the facts and circumstances.

BC42. Given the description of a blockage factor, the Board concluded that a reporting entity's decision to incur a blockage factor is specific to that reporting entity, not to the asset or liability. Furthermore, a blockage factor is observed when the quantity held is greater than the normal daily trading volume for the asset or liability. In many cases, the unit of account for a financial instrument is the individual financial instrument. In such cases, the size of a reporting entity's

holding is not relevant. A reporting entity would only incur a blockage factor when that reporting entity decides to enter into a transaction to sell a block comprising a large number of identical assets or liabilities. In that way, blockage factors are like transaction costs and will differ depending on how a reporting entity enters into a transaction for an asset or a liability. The Board believes that if a reporting entity decides to enter into a transaction to sell a block, the consequences of that decision should be reported when the decision is carried out, which is consistent with the Board's rationale in developing Statement 157.

BC43. Because the decision to incur a blockage factor is specific to the reporting entity, the Board decided to prohibit its application, even when a reporting entity expects to incur a blockage factor upon the sale of an asset or a liability. The Board concluded that a blockage factor could arise only when fair value is measured using a quoted price for the asset or liability (or similar assets or liabilities). As a result, the Board concluded that a blockage factor would not be relevant when fair value is measured using a valuation technique that does not use a quoted price for the asset or liability (or similar assets or liabilities).

BC44. In addition, the Board decided to specify that fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy would take into account other premiums or discounts that market participants would take into account when pricing an asset or a liability given the unit of account specified in another Topic (for example, a noncontrolling interest discount). The Board concluded that a fair value measurement would take into account those premiums or discounts that represent a characteristic of the asset or liability that would transfer to a market participant.

Market Participants

BC45. U.S. GAAP currently describes market participants as being *independent of the reporting entity*. Because fair value assumes an orderly transaction *between market participants* at the measurement date and not an orderly transaction *between the reporting entity and another market participant*, the Board decided to clarify that the term *independence* in the definition of market participant means that market participants are independent of *each other* (that is, they are not related parties). This proposed amendment is consistent with the proposal in the IASB Exposure Draft on fair value measurement.

BC46. As a result of that decision, the Board needed to clarify whether a price observed in a related party transaction may be used in a fair value measurement. Respondents to the IASB Exposure Draft on fair value measurement noted that in some jurisdictions, reporting entities often have common ownership (for example, state-owned enterprises or entities with cross ownership with each other). Those respondents questioned whether transactions observed in those

jurisdictions would be permitted as an input into a fair value measurement. The Board decided to clarify that the price in a related party transaction may be used as an input into a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms. The Board believes that this guidance is consistent with the guidance on related parties in Topic 850.

Application to Liabilities

BC47. The objective of a fair value measurement of a liability when using a valuation technique is to estimate the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. U.S. GAAP provides guidance on measuring the fair value of a liability when there is not an observable market to provide pricing information for the transfer of a liability. For example, a reporting entity may measure the fair value of a liability using an income approach (such as a present value technique).

BC48. U.S. GAAP states that when applying a present value technique, a reporting entity should include the compensation that a market participant would require for taking on the obligation. The IASB Exposure Draft on fair value measurement proposed similar guidance. Respondents to the IASB Exposure Draft asked for clarification about the meaning of *compensation that a market participant would require for taking on the obligation*. The Board decided to provide additional guidance about the compensation that market participants would require, such as the compensation for taking on the responsibility of fulfilling an obligation and for assuming the risk associated with the obligation (that is, the risk that the actual cash outflows ultimately might differ from the expected cash outflows). The Board concluded that including this description in the fair value measurement guidance would improve the application of fair value measurement principles on the measurement of liabilities.

BC49. The Board also concluded that there are two fundamental differences between the fair value measurement of an asset and a liability that justify different treatments for asset restrictions and for liability restrictions. First, restrictions on the transfer of a liability relate to the performance of the obligation (that is, the reporting entity is legally obligated to satisfy the obligation and needs to do something to be relieved of the obligation), whereas restrictions on the transfer of an asset relate to the marketability of the asset. Second, virtually all liabilities include a restriction preventing the transfer of the liability, whereas most assets do not include a similar restriction. As a result, the effect of a restriction preventing the transfer of a liability would, theoretically, be consistent for all liabilities. However, the inclusion of a restriction preventing the sale of the asset typically results in a lower fair value for the restricted asset versus the nonrestricted asset, all other factors being equal.

Principal (or Most Advantageous) Market

BC50. Some respondents to the IASB Exposure Draft on fair value measurement stated that the language in U.S. GAAP is unclear on whether the principal market should be determined on the basis of the volume and level of activity *for the asset or liability* or on the volume and level of activity *of the reporting entity entering into transactions in a particular market*. Therefore, the Board decided to clarify that the principal market should be determined on the basis of the market for the asset or liability with the greatest volume and level of activity *for the asset or liability*. Because the principal market is the most liquid market for the asset or liability, that market will provide the most representative input for a fair value measurement.

BC51. The Board also decided to clarify that in the absence of a principal market for an asset or a liability, the determination of the most advantageous market takes into account both transaction costs and transportation costs. However, consistent with current U.S. GAAP, a fair value measurement only takes into account transportation costs.

BC52. In addition, the Board decided to specify that the principal market is presumed to be the market in which the reporting entity normally enters into transactions unless there is evidence to the contrary. Therefore, a reporting entity does not need to perform an exhaustive search for markets that might have more activity for the asset or liability than the market in which the reporting entity normally enters into transactions. The Board believes that a reporting entity normally enters into transactions in the principal market for the asset or liability (that is, the most liquid market that the reporting entity can access). As a result, the Board believes that the proposed guidance would address practical concerns about the costs of searching for the market with the greatest volume and level of activity for the asset or liability.

BC53. The Board also decided to specify that the transaction to sell an asset or to transfer a liability takes place in the principal (or most advantageous) market, provided that the reporting entity can access that market on the measurement date. The Board believes that the proposed guidance is consistent with existing guidance in U.S. GAAP.

BC54. The Board decided to specify that when there is not an observable market for an asset or a liability, a reporting entity must take into account the characteristics of market participants who would enter into a transaction for the asset or liability. That decision addresses concerns that were raised by respondents to the IASB Exposure Draft on fair value measurement that a reporting entity would have difficulty determining the principal market for assets and liabilities that are, for example, categorized within Level 3 of the fair value

hierarchy, because there would be no basis for a reporting entity to determine the volume or level of activity for the asset or liability.

Measuring the Fair Value of Instruments Classified in Shareholders' Equity

BC55. The Board decided to provide guidance for measuring the fair value of instruments classified in a reporting entity's shareholders' equity. U.S. GAAP states that while the definition of fair value focuses on assets and liabilities because they are the primary subject of accounting measurement, the definition of fair value also should be applied to instruments measured at fair value that are classified in shareholders' equity (for example, when an acquirer issues equity in consideration for the acquiree in a business combination). However, Topic 820 does not contain explicit guidance for measuring the fair value of those types of instruments.

BC56. The IASB Exposure Draft on fair value measurement proposed explicit guidance for measuring the fair value of instruments classified in a reporting entity's shareholders' equity. That proposed guidance states that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant who holds the instrument as an asset. This is because the issuer of an equity instrument can exit from that instrument only if the instrument ceases to exist or if the reporting entity repurchases the instrument from the holder. Respondents to the IASB Exposure Draft stated that they found that guidance to be helpful. On the basis of those comments, the Board concluded that the proposed guidance would be helpful and would improve the application of fair value measurement guidance in U.S. GAAP.

Disclosures

Measurement Uncertainty Analysis Disclosure for Recurring Fair Value Measurements Categorized within Level 3 of the Fair Value Hierarchy

BC57. The Board decided to require a reporting entity to disclose information about the measurement uncertainty of fair value measurements that are categorized within Level 3 of the fair value hierarchy and that are measured at fair value on a recurring basis. The proposed disclosure requirement is similar to a disclosure requirement that was proposed in the Exposure Draft for Accounting Standards Update 2010-06 on Topic 820. On the basis of the comments received from respondents to that Exposure Draft, the Board decided to consider a disclosure about the measurement uncertainty of fair value measurements

categorized within Level 3 of the fair value hierarchy in the joint fair value measurement project so that the Board could discuss that issue with the IASB.

BC58. The Board concluded that the objective of a measurement uncertainty analysis disclosure is to provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy at the measurement date. The proposed disclosure is not intended to reflect remote (including worst-case) scenarios and it is not forward looking (that is, the analysis in the proposed disclosure is not meant to predict how a fair value measurement would change in the future because of changes in future economic conditions).

BC59. The Board believes the objective of the proposed measurement uncertainty analysis disclosure is different from the objectives of other disclosures that a reporting entity may be required to make, such as SEC Financial Reporting Release No. 48, *Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments*. For example, the disclosure in the Financial Reporting Release provides information about a reporting entity's exposure to market risks, whereas the measurement uncertainty analysis disclosure would provide information about the measurement uncertainty related to those fair value measurements with the greatest level of subjectivity (that is, fair value measurements categorized within Level 3 of the fair value hierarchy).

BC60. IFRS 7 requires a reporting entity to disclose information about the sensitivities of fair value measurements to the main valuation assumptions (that is, a measurement uncertainty analysis) for financial instruments categorized within Level 3 of the fair value hierarchy (that disclosure would be removed from IFRS 7 once the IASB's fair value measurement standard is finalized). The IASB Exposure Draft on fair value measurement proposed requiring a measurement uncertainty analysis disclosure for all fair value measurements (including nonfinancial assets and nonfinancial liabilities) categorized within Level 3 of the fair value hierarchy. The measurement uncertainty analysis disclosure currently required in IFRS 7 and proposed in the IASB Exposure Draft on fair value measurement does not require a reporting entity to take into account the effect of interdependencies or correlation between unobservable inputs. As a result, the IASB has published an Exposure Draft on a measurement uncertainty analysis disclosure that is identical to the disclosure in this proposed Update. The Boards will jointly consider the comments received on that Exposure Draft and on this proposed Update.

BC61. Users of financial statements prepared in accordance with IFRSs informed the Boards that the measurement uncertainty analysis disclosure

required by IFRS 7 provides useful information that helps them to assess the subjectivity of a reporting entity's fair value measurements categorized within Level 3 of the fair value hierarchy. However, those users also informed the Boards that the measurement uncertainty analysis disclosure in IFRS 7 (and in the IASB Exposure Draft on fair value measurement) would be more helpful if it required the effect of correlation between unobservable inputs to be taken into account in the measurement uncertainty analysis. They have asserted that including the effect of correlation would help them to assess the extent to which using a different unobservable input can affect a fair value measurement.

BC62. On the basis of that feedback and the comments received from users of financial statements on the Exposure Draft for Accounting Standards Update 2010-06, the Board decided that a disclosure of the measurement uncertainty inherent in a fair value measurement categorized within Level 3 of the fair value hierarchy, including an assessment of the correlation between unobservable inputs (when such correlation is relevant), would provide helpful information for users of financial statements.

BC63. The Board decided to specify that reporting entities should assess the effect on the fair value measurement of changing one or more *unobservable* inputs. The Board concluded that reporting entities should not need to assess how *observable* inputs might have differed, particularly because the disclosure is about measurement uncertainty (there is little, if any, uncertainty about observable inputs). In addition, the Board noted that the disclosure is not meant to provide users of financial statements with information for second guessing a reporting entity's fair value measurements.

BC64. In addition, the Board considered whether to require a reporting entity to include the effect of correlation between observable inputs or unobservable inputs, or both. The Board believes that the selection of another unobservable input that could have reasonably been used in the circumstances would be limited to those that were reasonable given the observable inputs used in the fair value measurement. As a result, the proposed amendments specify that the effect of correlation should be taken into account only for unobservable inputs.

BC65. The Board also concluded that a reporting entity should not be required to disclose quantitative information about the degree of correlation between unobservable inputs (for example, it is not necessary to perform a statistical analysis such as a regression analysis using two independent variables to determine the r-squared). Rather, a reporting entity would need to determine whether using a different combination of unobservable inputs that would have resulted in a significantly higher or lower fair value measurement would have a consequential effect on any of the other unobservable inputs used in the valuation technique (such as when using a pricing model) to measure fair value.

If so, the reporting entity would disclose the effect on the fair value measurement of using that combination of unobservable inputs in that pricing model.

BC66. The Board is aware that requiring a reporting entity to take into account the effect of correlation between unobservable inputs has practical considerations, including how to determine which unobservable inputs are correlated with each other and the effect of that correlation on the fair value measurement. However, the Board concluded that the measurement uncertainty analysis would be most informative when correlation between unobservable inputs is taken into account. An assessment of the effect of correlation between unobservable inputs and whether the effect of such correlation is relevant is a matter of judgment and would differ depending on the circumstances. Therefore, the Board decided not to provide guidance for making assessments about the effect of correlation between unobservable inputs.

BC67. The Board also considered whether to provide additional guidance about what is meant by the term *significantly*. Paragraph 820-10-35-37 states that “assessing the significance of a particular input to the entire measurement requires judgment, considering factors specific to the asset or liability.” The disclosure in the amendment to paragraph 820-10-50-2(f) of this proposed Update states that “significance shall be judged with respect to earnings (or changes in net assets) and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, with respect to total equity.” The Board noted that assessing significance requires judgment and decided not to provide guidance about what is meant by *significantly*.

BC68. The Board decided that a reporting entity should be required to provide a measurement uncertainty analysis disclosure about fair value measurements that are categorized within Level 3 of the fair value hierarchy and that are measured at fair value on a recurring basis unless another Topic specifies that such a disclosure is not required for a particular asset or liability. For example, the Board has tentatively decided in its project on accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments. The proposed amendments would not apply to assets or liabilities not measured at fair value in the statement of financial position.

When a Reporting Entity Uses an Asset in a Way That Differs from Its Highest and Best Use

BC69. The Board decided to require a reporting entity to disclose information about when it uses an asset in a way that differs from its highest and best use (when that asset is recognized at fair value in the statement of financial position on the basis of its highest and best use). The IASB Exposure Draft proposed

requiring such a disclosure, and the Board concluded that such a disclosure would provide useful information for users of financial statements.

The Categorization within the Level of the Fair Value Hierarchy for Items That Are Not Measured at Fair Value in the Statement of Financial Position

BC70. The Board decided to require a reporting entity to disclose the categorization within the level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed. An example of this is a financial asset that is measured at amortized cost in the statement of financial position, but for which fair value must be disclosed in accordance with Topic 825. (That disclosure would not be relevant under the amendments in the proposed Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*. In that proposed Update, almost all financial assets and financial liabilities would be measured at fair value in the statement of financial position.)

BC71. The guidance on financial instruments in Topic 825 requires a reporting entity to disclose information about the methods and significant assumptions used to measure the fair value of financial instruments. The Board concluded that disclosing the level of the fair value hierarchy within which an asset or a liability would be categorized if that asset or liability would have been recognized at fair value in the statement of financial position would provide meaningful information to users about the relative subjectivity of that fair value measurement.

Transition

BC72. The Board decided that if a difference exists in the fair value measurement of an item recorded at fair value as a result of applying the amendments in this proposed Update, a reporting entity would be required to recognize a cumulative-effect adjustment in beginning retained earnings in the period of adoption (that is, a limited retrospective transition). A reporting entity would be required to provide the additional proposed disclosures upon adoption (that is, prospectively).

BC73. The Board rejected other transition methods, such as full retrospective transition. The Board acknowledged that retrospective transition methods provide the most useful information. However, the Board concluded that full retrospective application would be impracticable to apply for some of the amendments in this proposed Update (for example, measuring the fair value of financial instruments

that are managed on the basis of the reporting entity's net risk exposure) because reporting entities would be required to take into account with hindsight what inputs would have been appropriate in prior periods to restate net income in periods presented and to restate beginning retained earnings for the effects on years not presented. The Board concluded that it would be difficult for some reporting entities to make such restatements (for example, when there are existing information systems in place for measuring fair value) and that the benefits would not justify the costs.

BC74. The amendments in this proposed Update include instructions that specify how an amendment will be made to the Accounting Standards Codification. For example, those amendments that the Board believes would change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements include a link to the transition guidance. Proposed amendments that are insignificant in nature and that the Board believes would not change practice are not linked to the transition guidance. As a result, those proposed amendments would become effective immediately upon the Update's issuance.

Benefits and Costs

BC75. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to measure objectively the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC76. The Board does not anticipate that reporting entities would incur significant costs as a result of applying the amendments in this proposed Update. The proposed amendments would benefit users of financial statements by providing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and by improving the understandability of the fair value measurement guidance currently in U.S. GAAP. The proposed amendments would not create new accounting requirements other than requiring additional disclosures for which information should be readily available (except for the proposed measurement uncertainty analysis disclosure).

BC77. Some Board members have concerns about the operationality of the proposed measurement uncertainty analysis disclosure and whether the benefit to users of financial statements would outweigh the additional cost to reporting entities for providing the disclosure on a quarterly basis. Furthermore, given the level of aggregation of the disclosure, some Board members are concerned that the additional analysis necessary for users to understand the disclosure might outweigh the benefits of having the disclosure available. Therefore, the Board decided to include a specific question for respondents to this proposed Update to seek additional input from both preparers and users of financial statements and to refine the Board's cost-benefit assessment of that proposed disclosure.

Topic 820 as Amended by This Proposed Update

Fair Value Measurement—Overall

Overview and Background

820-10-05-1 This Topic contains only the Overall Subtopic. This Subtopic does all of the following:

- a. Defines **fair value**
- b. Sets out a framework for measuring fair value, which refers to valuation concepts and practices
- c. Requires disclosures about fair value measurements.

820-10-05-1A Fair value is 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.

820-10-05-1B For some assets and liabilities, observable market transactions or market information might be readily available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases remains the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date (that is, an **exit price** from the perspective of a market participant who holds the asset or owes the liability). When a price for an identical asset or liability is not directly observable, a reporting entity measures fair value using another valuation technique (for example, using a quoted price for a similar asset or liability).

820-10-05-1C Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a reporting entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

820-10-05-1D The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. However, the guidance in this Topic shall be applied to instruments measured at fair value that are classified in shareholders' equity (see paragraph 820-10-35-18E).

820-10-05-2 This Topic explains how to measure fair value. It does not require additional fair value measurements and is not intended to establish valuation standards.

820-10-05-3 Paragraph superseded by Accounting Standards Update 2010-XX.

Scope and Scope Exceptions

> Overall Guidance

820-10-15-1 The Scope Section of the Overall Subtopic establishes the scope for the Fair Value Measurement Topic. The guidance in this Topic applies to all reporting entities, transactions, and instruments in accordance with other Topics that require or permit **fair value** measurements or disclosures about fair value measurements, with specific exceptions and qualifications noted below.

> Transactions

820-10-15-1A Paragraph not used.

> Other Considerations

>> Subtopics Not within Scope

820-10-15-2 The guidance in the Fair Value Measurement Topic does not apply as follows:

- a. In accordance with accounting principles that address share-based payment transactions (see Topic 718 and Subtopic 505-50)
- b. In accordance with Sections, Subtopics, or Topics that require or permit measurements that are similar to fair value but that are not intended to measure fair value, including both of the following:
 1. Sections, Subtopics, or Topics that permit measurements that are based on, or otherwise use, vendor-specific objective evidence of fair value, which include the following:
 - i. Subtopic 985-605
 - ii. Subtopic 605-25.
 2. Topic 330.
- c. In accordance with accounting principles that address fair value measurements for purposes of lease classification or measurement in accordance with Topic 840. This scope exception does not apply to assets acquired and liabilities assumed in a business combination or an **acquisition by a not-for-profit entity** that are required to be measured at fair value in accordance with Topic 805, regardless of whether those assets and liabilities are related to leases.

>> Practicability Exceptions to This Topic

820-10-15-3 The guidance in the Fair Value Measurement Topic does not eliminate the practicability exceptions to fair value measurements in Subtopics within the scope of this Topic. Those practicability exceptions to fair value measurements in specified circumstances include, among others, those stated in the following:

- a. The use of a transaction price (an **entry price**) to measure fair value (an **exit price**) at initial recognition, including both of the following:
 1. Guarantees in accordance with Topic 460
 2. Subparagraph superseded by Accounting Standards Update No. 2009-16.
- b. An exemption to the requirement to measure fair value if it is not practicable to do so, including both of the following:
 1. Financial instruments in accordance with Subtopic 825-10
 2. Subparagraph superseded by Accounting Standards Update No. 2009-16.
- c. An exemption to the requirement to measure fair value if fair value is not reasonably determinable, such as all of the following:
 1. Nonmonetary assets in accordance with Topic 845 and Sections 605-20-25 and 605-20-50
 2. Asset retirement obligations in accordance with Subtopic 410-20 and Sections 440-10-50 and 440-10-55
 3. Restructuring obligations in accordance with Topic 420
 4. Participation rights in accordance with Subtopics 715-30 and 715-60.
- d. An exemption to the requirement to measure fair value if fair value cannot be measured with sufficient reliability (such as contributions in accordance with Topic 958 and Subtopic 720-25).
- e. The use of certain of the measurement methods referred to in paragraph 805-20-30-10 that allow measurements other than fair value for certain assets acquired and liabilities assumed in a business combination.

>> Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-15-4 The guidance in paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall only apply to an investment that meets both of the following criteria as of the reporting entity's measurement date:

- a. The investment does not have a **readily determinable fair value**
- b. The investment is in an entity that has all of the attributes specified in paragraph 946-10-15-2 or, if one or more of the attributes specified in paragraph 946-10-15-2 are not present, is in an entity for which it is industry practice to issue financial statements using guidance that is

consistent with the measurement principles in Topic 946 (for example, certain investments in real estate funds that measure investment assets at fair value on a recurring basis).

820-10-15-5 The definition of *readily determinable fair value* indicates that an equity security would have a readily determinable fair value if any one of three conditions is met. One of those conditions is that sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC. The definition notes that restricted stock meets that definition if the restriction terminates within one year. If an investment otherwise would have a readily determinable fair value, except that the investment has a restriction of greater than one year, the reporting entity shall not apply the guidance in paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A to the investment.

Recognition

820-10-25-1 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-25-2 Paragraph superseded by Accounting Standards Update 2010-XX.

Initial Measurement

820-10-30-1 The fair value measurement framework, which applies at both initial and subsequent measurement if **fair value** is required or permitted by other Topics, is discussed primarily in Section 820-10-35. This Section gives additional guidance specific to applying the framework at initial measurement.

820-10-30-2 When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an **entry price**). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an **exit price**). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

820-10-30-3 Although conceptually entry prices and exit prices are different, in many cases the entry price of an asset or a liability will equal the exit price (for example, that might be the case when on the transaction date the transaction to buy an asset would take place in the market in which the asset would be sold). In such cases, the fair value of an asset or a liability at initial recognition equals the entry (transaction) price.

- a. Subparagraph superseded by Accounting Standards Update 2010-XX.
- b. Subparagraph superseded by Accounting Standards Update 2010-XX.
- c. Subparagraph superseded by Accounting Standards Update 2010-XX.
- d. Subparagraph superseded by Accounting Standards Update 2010-XX.

820-10-30-3A When determining whether fair value at initial recognition equals the transaction price, a reporting entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

- a. The transaction is between **related parties**, although the price in a related party transaction may be used as an input into a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms.
- b. The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
- c. The **unit of account** represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (for example, in a **business combination**), the transaction includes unstated rights and privileges that are separately measured in accordance with the requirements in another Topic or the transaction price includes **transaction costs**.
- d. The market in which the transaction takes place is different from the market in which the reporting entity would sell the asset or transfer the liability, that is, the **principal market** (or **most advantageous market**). For example, those markets might be different if the reporting entity is a securities dealer that enters into transactions with customers in the retail market and with other securities dealers in the **dealer market**.

820-10-30-4 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-30-5 Paragraph 820-10-55-46 illustrates situations in which the price in a transaction involving a derivative instrument might (and might not) represent the fair value of the instrument.

820-10-30-6 If another Topic requires or permits a reporting entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the reporting entity shall recognize the resulting gain or loss in earnings unless that Topic specifies otherwise.

Subsequent Measurement

820-10-35-1 The **fair value** measurement framework, which applies at both initial and subsequent measurement if **fair value** is required or permitted by another Topic, is discussed primarily in this Section. 820-10-30 gives additional guidance specific to applying the model at initial measurement. This Section is organized as follows:

- a. Definition of fair value
- b. Valuation techniques
- c. **Inputs** to valuation techniques
- d. Fair value hierarchy.

> Definition of Fair Value

820-10-35-2 Fair value is defined in this Topic 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.

- a. Subparagraph superseded by Accounting Standards Update 2010-XX.
- b. Subparagraph superseded by Accounting Standards Update 2010-XX.
- c. Subparagraph superseded by Accounting Standards Update 2010-XX.
- d. Subparagraph superseded by Accounting Standards Update 2010-XX.
- e. Subparagraph superseded by Accounting Standards Update 2010-XX.
- f. Subparagraph superseded by Accounting Standards Update 2010-XX.

820-10-35-2A This guidance is organized as follows:

- a. The asset or liability
- b. The transaction
- c. Market participants
- d. The price
- e. Application to nonfinancial assets
- f. Application to liabilities
- g. Application to instruments classified in a reporting entity's shareholders' equity
- h. Application to financial instruments.

> > The Asset or Liability

820-10-35-2B A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value, a reporting entity shall take into account the characteristics of the asset or liability if market participants would take into account those characteristics when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

- a. The condition and location of an asset
- b. Restrictions, if any, on the sale or use of an asset.

The effect on the measurement arising from a particular characteristic will differ depending on whether that characteristic would be taken into account by market participants. Paragraph 820-10-55-51 illustrates a restriction's effect on fair value measurement.

820-10-35-2C The asset or liability measured at fair value might be either of the following:

- a. A standalone asset or liability (for example, a **financial instrument** or an operating asset)
- b. A group of assets, a group of liabilities, or a group of assets and liabilities (for example, a reporting unit or a business).

820-10-35-2D Whether the asset or liability is a standalone asset or liability, a group of assets, a group of liabilities, or a group of assets and liabilities depends on its **unit of account**. The unit of account for the asset or liability shall be determined in accordance with the requirements in other Topics, except as specified in paragraph 820-10-35-44.

820-10-35-2E Paragraph 820-10-55-51 illustrates a restriction's effect on fair value measurement.

> > The Transaction

820-10-35-3 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date.

820-10-35-4 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-5 A fair value measurement assumes that the transaction to sell the asset or transfer the liability either:

- a. Takes place in the **principal market** for the asset or liability
- b. In the absence of a principal market, takes place in the **most advantageous market** for the asset or liability.

820-10-35-5A A reporting entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall not ignore information that is reasonably available. In the absence of evidence to the contrary, the market in which the reporting entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

820-10-35-6 If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

820-10-35-6A The principal (or most advantageous) market is a market the reporting entity can access at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities.

820-10-35-6B Although a reporting entity must be able to access the market at the measurement date, it does not need to be able to sell the particular asset or transfer the particular liability on that date to be able to measure fair value on the basis of the price in that market, for example, if there is a restriction on the sale of the asset or if there has been a significant decrease in the volume and level of activity for the asset or liability. However, the reporting entity must be able to access the market for the particular asset or liability, for example, when a restriction ceases to exist or the volume and level of activity for the asset or liability increases.

820-10-35-6C When there is not an observable market to provide pricing information for the sale of an asset or the transfer of a liability at the

measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability. In the absence of an actual transaction, it is necessary to take into account the characteristics of market participants who would enter into a transaction for the asset or liability.

820-10-35-7 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-8 Paragraph superseded by Accounting Standards Update 2010-XX.

> > Market Participants

820-10-35-9 The fair value of an asset or a liability shall be measured using the assumptions that market participants would use when pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity shall identify characteristics that distinguish market participants generally, considering factors specific to all of the following:

- a. The asset or liability
- b. The principal (or most advantageous) market for the asset or liability
- c. Market participants with whom the reporting entity would enter into a transaction in that market.

> > The Price

820-10-35-9A Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date (that is, an **exit price**) regardless of whether that price is directly observable or estimated using another valuation technique. In the absence of an observable market to provide pricing information, a reporting entity shall consider the characteristics of market participants who would enter into a transaction for the asset or liability.

820-10-35-9B The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for **transaction costs**. Transaction costs shall be accounted for in accordance with the requirements in other Topics. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to the transaction and will differ depending on how the reporting entity enters into a transaction for the asset or liability.

820-10-35-9C Transaction costs do not include **transportation costs**. If location is a characteristic of the asset (as might be the case for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset to or from that market.

> > Application to Nonfinancial Assets

820-10-35-9D Paragraphs 820-10-35-10 through 35-14 describe the fair value measurement of nonfinancial assets.

820-10-35-10 Paragraph superseded by Accounting Standards Update 2010-XX.

> > > Highest and Best Use

820-10-35-10A A fair value measurement of a nonfinancial asset considers a market participant's ability to generate economic benefit by using the asset in its **highest and best use** or by selling it to another market participant who will use the asset in its highest and best use. The highest and best use of the asset considers the use of the asset that is physically possible, legally permissible, and financially feasible as follows:

- a. A use that is physically possible takes into account the physical characteristics of the asset that market participants would consider when pricing the asset (for example, the location or size of a property).
- b. A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would consider when pricing the asset (for example, the zoning regulations applicable to a property).
- c. A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into consideration the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

820-10-35-10B Highest and best use is determined from the perspective of market participants, even if the reporting entity intends a different use. However, a reporting entity's current use of an asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.

820-10-35-10C For competitive or other reasons, a reporting entity may intend not to use an acquired asset actively or it may intend not to use the asset

according to its highest and best use. For example, that might be the case for an acquired intangible asset that the reporting entity plans to use defensively by preventing others from using it. Nevertheless, the reporting entity shall measure the fair value of the asset assuming its highest and best use by market participants.

> > > Valuation Premise

820-10-35-10D The highest and best use of a nonfinancial asset establishes the valuation premise used to measure the fair value of the asset. Specifically:

- a. The highest and best use of an asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (for example, a business).
 1. If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (that is, its complementary assets and liabilities) would be available to market participants.
 2. Complementary liabilities include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group.
 3. Assumptions about the highest and best use of a nonfinancial asset shall be consistent for all of the assets (for which highest and best use is relevant) of the group within which the asset would be used.
- b. The highest and best use of an asset might provide maximum value to market participants on a standalone basis. If the highest and best use of the asset is to use it on a standalone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants who would use the asset on a standalone basis.

820-10-35-11 Because the highest and best use of the asset is determined on the basis of its use by market participants, fair value reflects the assumptions that market participants would use when pricing the asset, whether the asset is used in combination with other assets or with other assets and liabilities or is used on a standalone basis.

820-10-35-11A A fair value measurement assumes that the asset is sold consistent with the unit of account specified in other Topics (which may be an individual asset), not necessarily as part of a group of assets or a business. However, the fair value of an asset used in combination with other assets or with

other assets and liabilities is determined on the basis of the use of the asset together with its complementary assets and liabilities (consistent with its highest and best use from the perspective of market participants), even if the asset is aggregated or disaggregated at a different level when applying other Topics.

820-10-35-12 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-13 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-14 Paragraph 820-10-55-25 illustrates the valuation premise of highest and best use.

820-10-35-15 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-15A Paragraph not used.

> > **Application to Liabilities**

820-10-35-15B Paragraphs 820-10-35-16 through 35-18D describe the fair value measurement of financial and nonfinancial liabilities.

> > > **General Principles**

820-10-35-16 A fair value measurement assumes that:

- a. The liability, whether it is a financial liability or a nonfinancial liability, is transferred to a market participant at the measurement date (that is, the liability would continue and the market participant transferee would be required to fulfill the obligation; it would not be settled with the counterparty or otherwise extinguished on the measurement date).
- b. Subparagraph superseded by Accounting Standards Update 2010-XX.

820-10-35-16A In many cases, there will not be an observable market to provide pricing information for the transfer of a liability because there are often contractual or other legal restrictions preventing the transfer of a liability. However, in some cases, a liability (for example, a debt obligation) is held by another entity as an asset.

820-10-35-16B When a quoted price in an **active market** for the transfer of the identical liability is not available, a reporting entity shall measure the fair value of the liability as follows:

- a. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - 1. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - 2. Subparagraph superseded by Accounting Standards Update 2010-XX.
- b. Subparagraph superseded by Accounting Standards Update 2010-XX.
- c. Using the quoted price in an active market for the identical liability held by another entity as an asset, if that price is available
- d. If that price is not available, using other **observable inputs**, such as the quoted price in a market that is not active for the identical liability held by another entity as an asset or quoted prices for similar liabilities or similar liabilities held by other entities as assets.
- e. If observable inputs are not available, using another valuation technique, such as:
 - 1. An income approach (for example, a present value technique that takes into account the future cash outflows that market participants would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation, as described in paragraph 820-10-35-16H through 35-16I)
 - 2. A market approach (for example, using the amount that a market participant would pay to transfer the identical liability or would receive to enter into the identical liability, as described in paragraph 820-10-35-16J).

820-10-35-16C In all cases, a reporting entity shall maximize the use of relevant observable inputs and minimize the use of **unobservable inputs**. Furthermore, a reporting entity shall apply all applicable guidance in this Topic when measuring fair value when the volume and level of activity for a liability have significantly decreased and when identifying transactions that are not orderly.

820-10-35-16D A reporting entity shall adjust the quoted price of a liability held by another entity as an asset for factors specific to the asset that are not applicable to the fair value measurement of the liability. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

- a. The quoted price for the asset relates to a similar (but not identical) liability held as an asset (for example, if the liability has a credit quality different from that reflected in the fair value of a similar liability held as an asset).
- b. The unit of account for the asset is not the same as for the liability (for example, the quoted price for the asset includes the effect of a third-

party credit enhancement). See paragraphs 820-10-35-18A through 35-18B for further guidance.

820-10-35-16DD However, in the absence of factors that indicate that the quoted price of the asset should be adjusted (such as those listed in paragraph 820-10-35-16D), when measuring the fair value of a liability using the quoted price of the liability held by another entity as an asset, a reporting entity shall not adjust the price of the asset for the effect of a restriction preventing the sale of that asset.

820-10-35-16E Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-16F Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-16G When observable inputs are not available and a reporting entity measures the fair value of a liability using another valuation technique, a reporting entity shall ensure that the fair value is consistent with the objective of a fair value measurement, that is, to estimate the price at which an orderly transaction to transfer the liability would take place between market participants at the measurement date.

820-10-35-16H When using a present value technique (see paragraph 820-10-35-16B(e)(1)), a reporting entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include the direct and indirect costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for undertaking the activity (that is, the value of fulfilling the obligation; for example, by using resources that could be used otherwise) and for assuming the risk associated with the obligation (that is, the risk that the actual cash outflows ultimately might differ from the expected cash outflows).

820-10-35-16I That compensation might be reflected in the fair value of a liability in different ways. For example:

- a. A financial liability contains a contractual rate of return reflecting both the compensation for undertaking the activity and the compensation for assuming the risk associated with the obligation at inception. At the measurement date, a reporting entity shall determine whether the contractual rate of return reflects the compensation market participants

would require for taking on the obligation (that is, for undertaking the activity and for assuming the risk associated with the obligation).

- b. A nonfinancial liability does not contain a contractual rate of return and there is no observable market yield for such liabilities. Therefore, a reporting entity shall estimate the return market participants would require for undertaking the activity and for assuming the risk associated with the obligation. In some cases, those components will be indistinguishable from one another (for example, when using the price a third-party contractor would charge on a fixed fee basis). In other cases, a reporting entity needs to estimate them separately (for example, when using the price a third-party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

820-10-35-16J When using a valuation technique that takes into account the amount at the measurement date that the reporting entity would receive to enter into the identical liability (see paragraph 820-10-35-16B(e)(2)), the inputs shall reflect the assumptions that market participants would use when pricing the identical liability in the principal (or most advantageous) market for issuing a liability with the same contractual terms.

> > Nonperformance Risk

820-10-35-17 The fair value of a liability reflects the effect of nonperformance risk. Nonperformance risk includes, but may not be limited to, a reporting entity's own **credit risk**. Nonperformance risk is assumed to be the same before and after the transfer of the liability.

820-10-35-18 When measuring the fair value of a liability, a reporting entity shall consider the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will not be fulfilled. That effect may differ depending on the liability, for example:

- a. Whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a nonfinancial liability)
- b. The terms of credit enhancements related to the liability, if any.

Paragraph 820-10-55-56 illustrates the effect of credit risk on fair value measurement of a liability.

820-10-35-18A The issuer of a **liability with an inseparable third-party credit enhancement** shall not include the effect of the credit enhancement in the fair value measurement of the liability. For the issuer, the unit of accounting for a

liability measured or disclosed at fair value does not include the third-party credit enhancement. This paragraph does not apply to the holder of the issuer's credit-enhanced liability.

820-10-35-18B The guidance in the preceding paragraph does not apply to any of the following instruments or transactions:

- a. A credit enhancement provided by a government or government agency (for example, deposit insurance)
- b. A credit enhancement provided between a parent and its subsidiary
- c. A credit enhancement provided between entities under common control.

> > Restriction Preventing the Transfer of a Liability

820-10-35-18C When measuring the fair value of a liability, a reporting entity shall not include a separate input or an adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The effect of a restriction that prevents the transfer of a liability would have been either implicitly or explicitly already included in the other inputs to the fair value measurement.

820-10-35-18D For example, at the transaction date, both the creditor and the obligor are willing to accept the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction already being included in the transaction price, a separate input or adjustment to an existing input into the fair value measurement of a liability is not required at the transaction date to reflect the effect of the restriction on transfer. Additionally, a separate input or adjustment to other inputs into the fair value measurement of a liability is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

> > Application to Instruments Classified in a Reporting Entity's Shareholders' Equity

820-10-35-18E As with assets and liabilities, the objective of a fair value measurement of an instrument classified in a reporting entity's shareholders' equity (for example, equity interests issued as consideration in a business combination) is to estimate an exit price from the perspective of a market participant who holds the instrument as an asset at the measurement date.

> > Application to Financial Instruments

820-10-35-18F Paragraphs 820-10-35-18G through 35-18N describe the fair value measurement of **financial assets** and **financial liabilities** (and derivatives that the reporting entity is required to or has elected to measure at fair value in accordance with the guidance in Topic 815 or Topic 825).

> > > Inputs Based on Bid and Ask Prices

820-10-35-18G If an input used to measure fair value (see paragraphs 820-10-35-36 through 35-36D) has a bid price and an ask price (for example, in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy (that is, Level 1, 2, or 3; see paragraphs 820-10-35-37 through 35-54A). The use of bid prices for long positions (assets) and ask prices for short positions (liabilities) is permitted but not required.

820-10-35-18H This Topic does not preclude the use of mid-market pricing or other pricing conventions used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

> > > Measuring the Fair Value of Financial Assets and Financial Liabilities When a Reporting Entity Has Offsetting Positions in Market Risks or Counterparty Credit Risk

820-10-35-18I A reporting entity that holds a group of financial assets and financial liabilities is exposed to **market risks** (that is, **interest rate risk**, **currency risk**, or **other price risk**) and to the credit risk of each of the counterparties. When the reporting entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either of those risks, the reporting entity is permitted to apply an exception to the requirements in this Topic for measuring fair value. That exception permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (that is, an asset) for a particular risk exposure or to transfer a net short position (that is, a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

820-10-35-18J A reporting entity is permitted to use that exception if the reporting entity does all of the following:

- a. Manages the group of financial assets and financial liabilities on the basis of the reporting entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the reporting entity's documented risk management or investment strategy
- b. Provides information on that basis about the group of financial assets and financial liabilities to the reporting entity's **management** (for example, the reporting entity's board of directors or chief executive officer)
- c. Manages the net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in a consistent manner from period to period
- d. Is required to or has elected to measure the financial assets and financial liabilities at fair value in the statement of financial position at each reporting date.

820-10-35-18K When using the exception in paragraph 820-10-35-18I to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the reporting entity's net exposure to a particular market risk (or risks), the reporting entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the reporting entity's net exposure to those market risks. When that exception is applied to measure the fair value of a group of financial assets and financial liabilities, the market risks that are being offset shall be substantially the same.

820-10-35-18L When using the exception in paragraph 820-10-35-18I to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the reporting entity shall include the effect of the reporting entity's net exposure to the credit risk of that counterparty in the fair value measurement when there is a legally enforceable right to set off one or more financial assets and financial liabilities with the counterparty in the event of default (for example, because the reporting entity has entered into a master netting agreement with that counterparty). If the reporting entity has a net short position (that is, the reporting entity owes the counterparty), the reporting entity shall apply such an adjustment on the basis of its own credit risk. If the reporting entity has a net long position (that is, the counterparty owes the reporting entity), the reporting entity shall apply an adjustment on the basis of the counterparty's credit risk.

820-10-35-18M If there is a quoted price in an active market (that is, a Level 1 input) for a financial asset or a financial liability within a group of financial assets and financial liabilities, a reporting entity shall use that quoted price without adjustment when measuring fair value, except as specified in paragraph 820-10-35-41C.

820-10-35-18N The exception in paragraph 820-10-35-18I does not apply to financial statement presentation. A reporting entity shall comply with the financial statement presentation requirements specified in other Topics.

820-10-35-19 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-20 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-21 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-22 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-23 Paragraph superseded by Accounting Standards Update 2010-XX.

> **Valuation Techniques**

820-10-35-24 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-25 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-26 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-27 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-28 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date. Valuation techniques consistent with the **market approach**, **income approach**, or **cost approach** shall be used to measure fair value. The main aspects of those approaches are summarized below.

> > **Market Approach**

820-10-35-29 The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets or liabilities (including a business).

820-10-35-30 For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The

selection of the appropriate multiple within the range requires judgment, considering qualitative and quantitative factors specific to the measurement.

820-10-35-31 Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value various types of financial instruments such as debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

> > **Income Approach**

820-10-35-32 The income approach uses valuation techniques to convert future amounts (for example, cash flows or income and expenses) to a single present (discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

820-10-35-33 Those valuation techniques include the following:

- a. **Present value** techniques
- b. Option-pricing models, such as the Black-Scholes-Merton formula (a closed-form model) and a binomial model (a lattice model), which incorporate present value techniques and reflect both the time value and the intrinsic value of an option
- c. The multiperiod excess earnings method, which is used to measure the fair value of some intangible assets.

> > **Cost Approach**

820-10-35-34 The cost approach reflects the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost).

820-10-35-35 From the perspective of a market participant (seller), the price that would be received for the asset is based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. That is because a market participant would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence, and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (based on specified service lives). The current replacement cost method is often used to measure the fair value of tangible assets used in combination with other assets or with other assets and liabilities.

> > General Principles

820-10-35-35A A reporting entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

820-10-35-35B In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (for example, as might be the case when valuing a reporting unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. Paragraph 820-10-55-35 illustrates the use of multiple valuation techniques.

820-10-35-35C If the transaction price represents fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition it equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions and helps a reporting entity to determine whether an adjustment to the valuation technique is necessary (for example, there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique that uses unobservable inputs, a reporting entity should calibrate the valuation technique(s) used to observable market data (for example, the price for a similar asset or liability).

820-10-35-35D Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (for example, a change in its weighting when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

- a. New markets develop.
- b. New information becomes available.
- c. Information previously used is no longer available.
- d. Valuation techniques improve.
- e. Market conditions change.

820-10-35-35E Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. (See paragraph 250-10-45-17. Also, paragraph 250-10-50-5 explains that the disclosure requirements in Topic 250 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.)

820-10-35-35F The Examples in Section 820-10-55 illustrate, in qualitative terms, the judgments a reporting entity that measures assets and/or liabilities at fair value might apply in different valuation situations.

> Inputs to Valuation Techniques

820-10-35-36 Valuation techniques used to measure fair value shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Examples of markets in which inputs might be observable for some assets and liabilities (for example, financial instruments) include **exchange markets, dealer markets, brokered markets, and principal-to-principal markets.**

820-10-35-36A In some cases, a reporting entity may determine that observable inputs require significant adjustment using unobservable data and, thus, the fair value measurement would be categorized within a lower level of the fair value hierarchy. For example, the reporting entity may determine that an income approach valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs is equally representative of fair value as (or more representative of fair value than) a market approach valuation technique that would require significant adjustments using unobservable inputs.

> > Application of Blockage Factors and Other Premiums and Discounts

820-10-35-36B The selection of inputs to a valuation technique depends on the unit of account, as specified in other Topics, for the asset or liability being measured at fair value. In some cases, a reporting entity shall apply a premium or a discount (for example, a control premium or a noncontrolling interest discount) if market participants would consider such a premium or discount when pricing the asset or liability given the unit of account specified in another Topic. A reporting entity shall apply a control premium when measuring the fair value of a controlling interest in another entity when another Topic specifies that the unit of account is the controlling interest and the reporting entity determines that market participants would consider such a premium when pricing that controlling interest.

820-10-35-36C If a reporting entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and uses a quoted price for the asset or liability (or similar assets or liabilities) as an input into a fair value measurement, the quoted price for the asset or liability shall not be adjusted because of the size of the position relative to trading volume (commonly referred to as a blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the asset or liability in a single transaction might affect the quoted price. A blockage factor is not relevant and, therefore, shall not be used when fair value is measured using a valuation technique that does not use a quoted price for the asset or liability (or similar assets or liabilities).

820-10-35-36D If there is a quoted price in an active market (that is, a Level 1 input) for an asset or a liability, a reporting entity shall use that quoted price without adjustment when measuring fair value, except as specified in paragraph 820-10-35-41C.

> Fair Value Hierarchy

820-10-35-37 To increase consistency and comparability in fair value measurements and related disclosures, this Topic establishes a fair value hierarchy that prioritizes into three levels (see paragraphs 820-10-35-40 through 35-54A) the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (**Level 1 inputs**) and the lowest priority to unobservable inputs (**Level 3 inputs**). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, considering factors specific to the asset or liability.

820-10-35-38 The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques. However, the fair value hierarchy prioritizes the inputs to valuation techniques, not the valuation techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorized within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorized.

820-10-35-38A If observable inputs require significant adjustment using unobservable inputs, the resulting measurement is a Level 3 measurement. For

example, if a market participant would consider the effect of a restriction on the sale of an asset when estimating the price for the asset, a reporting entity shall adjust the quoted price to reflect the effect of that restriction. If the quoted price is a Level 1 input or a Level 2 input and the adjustment is significant to the entire measurement, the measurement shall be categorized within a lower level of the fair value hierarchy.

820-10-35-39 Paragraph superseded by Accounting Standards Update 2010-XX.

> > Level 1 Inputs

820-10-35-40 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

820-10-35-41 A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as specified in paragraph 820-10-35-41C.

820-10-35-41A Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-41B A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (for example, on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- a. The principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability
- b. Whether the reporting entity can access the price in that market for the asset or liability at the measurement date.

820-10-35-41C A reporting entity shall not make an adjustment to a Level 1 input except in the following circumstances:

- a. When a reporting entity holds a large number of similar assets or liabilities (for example, debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (that is, given the large number of similar assets or liabilities held by the reporting entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a

practical expedient, a reporting entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorized within a lower level of the fair value hierarchy.

- b. When a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (for example, transactions in a principal-to-principal market, trades in a brokered market, or announcements) take place after the close of a market but before the measurement date. A reporting entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorized within a lower level of the fair value hierarchy.
- c. When measuring the fair value of a liability using the quoted price for the identical liability traded as an asset in an active market, that price results in a Level 1 fair value measurement when no adjustments to the quoted price of the asset are required. In some cases, a reporting entity may need to adjust the quoted price for the asset for factors specific to the liability and the asset (see paragraph 820-10-35-16D). However, any adjustment to the quoted price of the asset results in a fair value measurement categorized within a lower level of the fair value hierarchy.

820-10-35-42 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-43 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-44 If a reporting entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability times the quantity held (see paragraph 820-10-35-36B).

820-10-35-45 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-46 Paragraph 820-10-55-42 illustrates the use of Level 1 inputs to measure the fair value of a financial asset that trades in multiple active markets with different prices.

>> Level 2 Inputs

820-10-35-47 Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

820-10-35-48 If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active (see paragraph 820-10-35-54C for examples of factors that may indicate that a market is not active or that there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability [or similar assets or liabilities] depending on the degree to which the factors exist)
- c. Inputs other than quoted prices that are observable for the asset or liability, for example:
 1. Interest rates and yield curves observable at commonly quoted intervals
 2. Volatilities
 3. Prepayment speeds
 4. Loss severities
 5. Credit risks
 6. Default rates.
- d. **Market-corroborated inputs.**

820-10-35-49 Paragraph 820-10-55-21 discusses Level 2 inputs for particular assets and liabilities.

820-10-35-50 Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

- a. The condition or location of the asset
- b. The extent to which inputs relate to items that are comparable to the asset or those factors described in paragraph 820-10-35-16D)
- c. The volume and level of activity in the markets within which the inputs are observed.

820-10-35-51 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3

of the fair value hierarchy, depending on where the inputs used to determine the adjustment are categorized within the fair value hierarchy.

820-10-35-51A Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51B Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51C Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51D Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51E Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51F Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51G Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-51H Paragraph superseded by Accounting Standards Update 2010-XX.

> > Level 3 Inputs

820-10-35-52 Level 3 inputs are defined in this Topic as unobservable inputs for the asset or liability.

820-10-35-53 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant who holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

820-10-35-54 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (for example, when there has been a significant decrease in the volume and level of activity when compared with normal market activity for the asset or liability [or similar assets or liabilities] and the reporting entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs 820-10-35-54C through 35-54J).

820-10-35-54A A reporting entity shall develop unobservable inputs using the best information available in the circumstances, which might include the reporting entity's own data. In developing unobservable inputs, a reporting entity may begin with its own data, which shall be adjusted if reasonably available information indicates that other market participants would use different data or there is something particular to the reporting entity that is not available to other market participants (for example, an entity-specific synergy). A reporting entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, a reporting entity shall not ignore information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

> > Categorizing Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) within the Fair Value Hierarchy

820-10-35-54B Categorization within the fair value hierarchy of a fair value measurement of an investment within the scope of paragraphs 820-10-15-4 through 15-5 that is measured at **net asset value per share** (or its equivalent, for example member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) requires judgment, considering the following:

- a. If a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as a Level 2 fair value measurement.
- b. If a reporting entity will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized within Level 3 of the fair value hierarchy.

- c. If a reporting entity cannot redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date (for example, investments subject to a lockup or gate or investments whose redemption period does not coincide with the measurement date), the reporting entity shall consider the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment shall be categorized within Level 2 or Level 3 of the fair value hierarchy. For example, if the reporting entity does not know when it will have the ability to redeem the investment or it does not have the ability to redeem the investment in the near term at net asset value per share (or its equivalent), the fair value measurement of the investment shall be categorized within Level 3 of the fair value hierarchy.

> Measuring Fair Value When the Volume and Level of Activity for an Asset or a Liability Have Significantly Decreased

820-10-35-54C A reporting entity shall determine whether, on the basis of the evidence available, there has been a significant decrease in the volume and level of activity for the asset or liability. To make such a determination, a reporting entity shall evaluate the significance and relevance of factors such as the following:

- a. There are few recent transactions.
- b. Price quotations are not based on current information.
- c. Price quotations vary substantially either over time or among market makers (for example, some brokered markets).
- d. Indexes that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
- e. There is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the reporting entity's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability.
- f. There is a wide bid-ask spread or significant increase in the bid-ask spread.
- g. There is a significant decline or absence of a market for new issues (that is, a primary market) for the asset or liability or similar assets or liabilities.
- h. Little information is publicly available (for example, for transactions that take place in a principal-to-principal market).

820-10-35-54D If a reporting entity concludes that there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume and level of activity on its own does not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if a reporting entity determines that a transaction or quoted price is not determinative of fair value (for example, there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the reporting entity uses those prices as a basis for measuring fair value, and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (for example, when a price for a similar asset requires significant adjustment to make it more comparable to the asset being measured or when the price is stale).

820-10-35-54E This Topic does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs 820-10-35-24 through 35-35F for a discussion of the use of valuation techniques when measuring fair value. Regardless of the valuation technique used, a reporting entity shall include appropriate risk adjustments, including a **risk premium** reflecting the amount that risk-averse market participants would demand because of the uncertainty inherent in the cash flows of an asset or a liability (see paragraph 820-10-55-8). Otherwise, the measurement does not faithfully represent fair value. In some cases, determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.

820-10-35-54F If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (for example, the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, a reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value estimates may be an indication that further analysis is needed.

820-10-35-54G Even when there has been a significant decrease in the volume and level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a

forced liquidation or distress sale) between market participants at the measurement date under current market conditions.

820-10-35-54H Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume and level of activity for the asset or liability depends on the facts and circumstances and requires the use of significant judgment. A reporting entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

> Identifying Transactions That Are Not Orderly

820-10-35-54I The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances, it is not appropriate to conclude that all transactions in that market are not orderly (that is, forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include, but are not limited to, the following:

- a. There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- b. There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- c. The seller is in or near bankruptcy or receivership (that is, distressed).
- d. The seller was required to sell to meet regulatory or legal requirements (that is, forced).
- e. The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

A reporting entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

820-10-35-54J A reporting entity shall consider all of the following:

- a. If the evidence indicates the transaction is not orderly, a reporting entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price when measuring fair value or estimating market risk premiums.

- b. If the evidence indicates that a transaction is orderly, a reporting entity shall consider that transaction price when measuring fair value or estimating market risk premiums. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:
 - 1. The volume of the transaction
 - 2. The comparability of the transaction to the asset or liability being measured
 - 3. The proximity of the transaction to the measurement date.
- c. If a reporting entity does not have sufficient information to conclude whether a transaction is orderly, it shall consider the transaction price when measuring fair value or estimating market risk premiums. However, that transaction price may not be determinative of fair value (that is, the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When a reporting entity does not have sufficient information to conclude whether particular transactions are orderly, the reporting entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

A reporting entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When a reporting entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

> Quoted Prices Provided by Third Parties

820-10-35-54K When measuring fair value, this Topic does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, when the reporting entity has determined that the quoted prices provided by those parties are determined in accordance with this Topic.

820-10-35-54L If there has been a significant decrease in the volume or level of activity for the asset or liability, a reporting entity shall evaluate whether the quoted prices are based on current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, a reporting entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.

820-10-35-54M Furthermore, the nature of a quote (for example, whether the quote is an indicative price or a binding offer) shall be considered when weighting

the available evidence, with more weight given to quotes that represent binding offers.

820-10-35-55 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-55A Paragraph not used.

820-10-35-55B Paragraph not used.

820-10-35-56 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-57 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-35-58 Paragraph superseded by Accounting Standards Update 2010-XX.

> Measuring the Fair Value of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-35-59 A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-60 If the net asset value per share of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner consistent with the measurement principles of Topic 946, the reporting entity shall consider whether an adjustment to the most recent net asset value per share is necessary. The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

820-10-35-61 The decision about whether to apply the guidance in paragraph 820-10-35-59 shall be made on an investment-by-investment basis and shall be applied consistently to the fair value measurement of a reporting entity's entire position in a particular investment, unless it is probable at the measurement date that a reporting entity will sell a portion of an investment at an amount different from net asset value per share (or its equivalent) as described in the following

paragraph. In those situations, the reporting entity shall account for the portion of the investment that is being sold in accordance with other provisions in this Topic (that is, the reporting entity shall not apply the guidance in paragraph 820-10-35-59).

820-10-35-62 A reporting entity is not permitted to estimate the fair value of an investment (or a portion of the investment) within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share of the investment (or its equivalent) as a practical expedient if, as of the reporting entity's measurement date, it is probable that the reporting entity will sell the investment for an amount different from the net asset value per share (or its equivalent). A sale is considered probable only if all of the following criteria have been met as of the reporting entity's measurement date:

- a. Management, having the authority to approve the action, commits to a plan to sell the investment.
- b. An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.
- c. The investment is available for immediate sale subject only to terms that are usual and customary for sales of such investments (for example, a requirement to obtain approval of the sale from the investee or a buyer's due diligence procedures).
- d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Disclosure

820-10-50-1 A reporting entity shall disclose information that helps users of its financial statements to assess both of the following:

- a. For assets and liabilities that are measured at **fair value** on a recurring or a nonrecurring basis in the statement of financial position after initial recognition, the valuation techniques and **inputs** used to develop those measurements
- b. For recurring fair value measurements using significant **unobservable inputs** (Level 3), the effect of the measurements on earnings (or changes in net assets) or other comprehensive income for the period.

820-10-50-2 To satisfy the principles in the preceding paragraph, a reporting entity shall disclose, at a minimum, the following information (except as specified in paragraph 820-10-50-2B) for each class of assets and liabilities (see paragraph 820-10-50-2C for information on determining appropriate classes of

assets and liabilities) measured at fair value in the statement of financial position after initial recognition.

- a. For recurring fair value measurements, the fair value measurement at the reporting date or, for nonrecurring fair value measurements, the fair value measurement recorded during the period and the reasons for the measurement
- b. The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).
 - 1. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - 2. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - 3. Subparagraph superseded by Accounting Standards Update 2010-XX.
- bb. For assets and liabilities held at the reporting date, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized (see paragraph 820-10-50-2D). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.
 - 1. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - 2. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - 3. Subparagraph superseded by Accounting Standards Update 2010-XX.
- bbb. For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in the valuation technique (for example, changing from a **market approach** to an **income approach** or the use of an additional valuation technique), the reporting entity shall disclose that change and the reason(s) for making it.
- c. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:
 - 1. Total gains or losses for the period recognized in earnings (or changes in net assets), and a description of where they are presented in the statement of income (or activities)
 - 1a. Total gains or losses for the period recognized in other comprehensive income and a description of where they are presented in other comprehensive income

2. Purchases, sales, issues, and settlements (each of those types of changes disclosed separately)
3. The amounts of any transfers into or out of Level 3, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized (see paragraph 820-10-50-2D). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
 - i. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - ii. Subparagraph superseded by Accounting Standards Update 2010-XX.
 - iii. Subparagraph superseded by Accounting Standards Update 2010-XX.
- d. The amount of the total gains or losses for the period in (c)(1) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities held at the reporting date and a description of where those unrealized gains or losses are presented in the statement of income (or activities).
- e. Subparagraph superseded by Accounting Standards Update 2010-XX.
- f. A measurement uncertainty analysis for fair value measurements categorized within Level 3 of the fair value hierarchy. If changing one or more of the unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used in the circumstances would have resulted in a significantly higher or lower fair value measurement, a reporting entity shall disclose the effect of using those different amounts and how it calculated that effect. When preparing a measurement uncertainty analysis, a reporting entity shall not take into account unobservable inputs that are associated with remote scenarios. A reporting entity shall take into account the effect of correlation between unobservable inputs if that correlation is relevant when estimating the effect on the fair value measurement of using those different amounts. For that purpose, significance shall be judged with respect to earnings (or changes in net assets) and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, with respect to total equity.

820-10-50-2A Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-50-2B The disclosures set out in paragraph 820-10-50-2(bb), (c), (d), and (f) shall be required only for assets and liabilities that are measured at fair value in the statement of financial position on a recurring basis after initial recognition.

820-10-50-2C A reporting entity shall determine appropriate classes of assets and liabilities on the basis of the nature, characteristics, and risks of the asset or

liability, and the level of the fair value hierarchy within which the fair value measurement is categorized. For example, the number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because such measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgment. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, a reporting entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position. If another Topic specifies the class for an asset or liability, a reporting entity may use that class in providing the disclosures required in this Topic if that class meets the requirements in this paragraph.

820-10-50-2D A reporting entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are recognized in accordance with the guidance in paragraph 820-10-50-2(bb) and (c)(3). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as that for transfers out of the levels. Examples of policies for when to recognize the transfers are as follows:

- a. The actual date of the event or change in circumstances that caused the transfer
- b. The beginning of the reporting period
- c. The end of the reporting period.

820-10-50-2E If the **highest and best use** of an asset differs from its current use, a reporting entity shall disclose the reason(s) that the asset is being used in a manner that differs from its highest and best use.

820-10-50-3 For derivative assets and liabilities, the reporting entity shall present both of the following:

- a. The fair value disclosures required by paragraph 820-10-50-2(a) through (bb) on a gross basis (which is consistent with the requirement of paragraph 815-10-50-4B(a))
- b. The reconciliation disclosure required by paragraph 820-10-50-2(c) through (d) on either a gross or a net basis.

820-10-50-4 Paragraphs 820-10-55-60 through 55-63 illustrate disclosures about fair value measurements.

> Liability Issued with an Inseparable Third-Party Credit Enhancement

820-10-50-4A For a **liability issued with an inseparable third-party credit enhancement**, an issuer shall disclose the existence of the third-party credit enhancement on its issued liability. Paragraph 820-10-35-18A states that, for the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit enhancement.

820-10-50-5 Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-50-6 Paragraph superseded by Accounting Standards Update 2010-XX.

> Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-50-6A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 (regardless of whether the practical expedient in paragraph 820-10-35-59 has been applied) and measured at fair value on a recurring or nonrecurring basis during the period, the reporting entity shall disclose information that enables users of its financial statements to understand the nature and risks of the investments and whether the investments are probable of being sold at amounts different from **net asset value per share** (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). To meet that objective, to the extent applicable, the reporting entity shall disclose all of the following information for each interim and annual period separately for each class of investment:

- a. The fair value (as determined by applying paragraphs 820-10-35-59 through 35-62) of the investments in the class, and a description of the significant investment strategies of the investee(s) in the class.
- b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.
- c. The amount of the reporting entity's unfunded commitments related to investments in the class.
- d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice).

- e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity shall disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity shall disclose that fact and how long the restriction has been in effect.
- f. Any other significant restriction on the ability to sell investments in the class at the measurement date.
- g. If a reporting entity determines that it is probable that it will sell an investment(s) for an amount different from net asset value per share (or its equivalent) as described in paragraph 820-10-35-62, the reporting entity shall disclose the total fair value of all investments that meet the criteria in paragraph 820-10-35-62 and any remaining actions required to complete the sale.
- h. If a group of investments would otherwise meet the criteria in paragraph 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in paragraph 820-10-35-59, the reporting entity shall disclose its plans to sell and any remaining actions required to complete the sale(s).

> Changes in Valuation Techniques or Their Application

820-10-50-7 As discussed in paragraph 250-10-50-5, the disclosure provisions of Topic 250 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

> Tabular Format Required

820-10-50-8 The quantitative disclosures required by this Topic shall be presented using a tabular format. In addition, a reporting entity shall determine whether users of its financial statements need any other information to evaluate the quantitative information disclosed. (See paragraph 820-10-55-60 for an illustration of the disclosures required by this Topic.)

820-10-50-8A Paragraph not used.

> Relation to Other Disclosure Requirements

820-10-50-9 The reporting entity is encouraged, but not required, to:

- a. Combine the fair value information disclosed in accordance with this Topic with the fair value information disclosed in accordance with the requirements in other Topics (for example, Section 825-10-50) in the periods in which those disclosures are required, if practicable
- b. Disclose information about other similar measurements (for example, inventories measured at market value in accordance with Topic 330), if practicable.

820-10-50-10 Plan assets of a defined benefit pension or other postretirement plan that are accounted for in accordance with Topic 715 are not subject to the disclosure requirements in paragraphs 820-10-50-1 through 50-9. Instead, the disclosures required in paragraphs 715-20-50-1(d)(iv) and 715-20-50-5(c)(iv) shall apply for fair value measurements of plan assets of a defined benefit pension or other postretirement plan.

Implementation Guidance and Illustrations

> Implementation Guidance

>> The Fair Value Measurement Approach

820-10-55-1 The objective of a **fair value** measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date. A fair value measurement requires a reporting entity to determine all of the following:

- a. The particular asset or liability that is the subject of the measurement (consistent with its **unit of account**)
- b. For a nonfinancial asset, the valuation premise that is appropriate for the measurement (consistent with its **highest and best use**)
- c. The principal (or most advantageous) market for the asset or liability
- d. The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop **inputs** that represent the assumptions that **market participants** would use when pricing the asset or liability and the level in the fair value hierarchy within which the inputs are categorized.

820-10-55-2 The judgments applied in different valuation situations often will be different. This Section describes, in qualitative terms, the judgments a reporting

entity that measures assets and liabilities at fair value might apply in different valuation situations.

> > > The Valuation Premise

820-10-55-3 When measuring the fair value of a nonfinancial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (for example, a business), the effect of the valuation premise depends on the circumstances. For example:

- a. The fair value of the asset might be the same whether the asset is used standalone or in combination with other assets or with other assets and liabilities. That might be the case if the asset is a business that market participants would continue to operate. In that case, the transaction would involve the business in its entirety. The use of the assets as a group in an ongoing business would generate synergies that would be available to market participants (that is, market participant synergies).
- b. An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments to the value of the asset used on a standalone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transportation and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).
- c. An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work-in-process inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have or would acquire any specialized machinery necessary to convert the inventory into finished goods.
- d. An asset's use in combination with other assets or with other assets and liabilities might be incorporated into the valuation technique used to measure the fair value of the asset. That might be the case when using the multiperiod excess earnings method to measure the fair value of an intangible asset because that valuation technique specifically considers the contribution of any complementary assets and liabilities in the group in which such an intangible asset would be used.
- e. In more limited situations, when a reporting entity uses an asset within a group of assets, the reporting entity might measure the asset at an amount that approximates its fair value when allocating the fair value of

the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (that is, an asset group) is allocated to its component assets (such as land and improvements).

> > > Present Value Techniques

820-10-55-4 Paragraphs 820-10-55-5 through 55-20 provide information about using present value techniques to measure fair value. Those paragraphs focus on a traditional or **discount rate adjustment technique** and an **expected cash flow** (expected present value) technique. Those paragraphs neither prescribe the use of one specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (for example, whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

> > > The Components of a Present Value Measurement

820-10-55-5 Present value (that is, an application of the **income approach**) is a tool used to link future amounts (for example, cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all of the following elements from the perspective of market participants at the measurement date:

- a. An estimate of future cash flows for the asset or liability being measured.
- b. Expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- c. The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (that is, a risk-free interest rate). For present value computations denominated in nominal U.S. dollars, the yield curve for U.S. Treasury securities determines the appropriate risk-free interest rate.
- d. The price for bearing the uncertainty inherent in the cash flows (that is, a **risk premium**).
- e. Other factors that would be considered by market participants in the circumstances.
- f. For a liability, the **nonperformance risk** relating to that liability, including the reporting entity's (that is, the obligor's) own **credit risk**.

>>> General Principles

820-10-55-6 Present value techniques differ in how they capture those elements in the preceding paragraph. However, all of the following general principles govern the application of any present value technique used to measure fair value:

- a. Cash flows and discount rates should reflect assumptions that market participants would use in pricing the asset or liability.
- b. Cash flows and discount rates should consider only the factors attributable to the asset or liability being measured.
- c. To avoid double counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects expectations about future defaults is appropriate if using contractual cash flows of a loan (that is, a discount rate adjustment technique). That same rate would not be used if using expected (that is, probability-weighted) cash flows (that is, an expected present value technique) because the expected cash flows already reflect assumptions about future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- d. Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pretax cash flows should be discounted at a rate consistent with those cash flows.
- e. Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

>>> Risk and Uncertainty

820-10-55-7 A fair value measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases, both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

820-10-55-8 Risk-averse market participants generally seek compensation (that is, a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium

reflecting the amount risk-averse market participants would demand because of the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.

820-10-55-9 Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

- a. The discount rate adjustment technique (see paragraphs 820-10-55-10 through 55-12) uses contractual, promised, or most likely cash flows and a discount rate that includes an adjustment for both of the following:
 1. The effect of the difference between those cash flows and the expected cash flows
 2. The risk premium that market participants require for bearing the uncertainty about whether the actual cash flows may ultimately differ from the expected cash flows.
- b. Method 1 of the expected present value technique (see paragraph 820-10-55-15) uses risk-adjusted expected cash flows and a risk-free rate.
- c. Method 2 of the expected present value technique (see paragraph 820-10-55-16) uses expected cash flows that are not risk adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

> > > Discount Rate Adjustment Technique

820-10-55-10 The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (for example, contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised, or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (that is, a market rate of return).

820-10-55-11 The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (for example, whether the cash flows are contractual or noncontractual and are likely to respond similarly to changes in economic conditions), as well as other factors (for example, credit standing, collateral, duration, restrictive covenants, and liquidity). Alternatively, if a single

comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (that is, using a build-up approach). Paragraph 820-10-55-33 illustrates the build-up approach.

820-10-55-12 When the discount rate adjustment technique is applied to fixed claims, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed claims, an adjustment to the cash flows also may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

> > > **Expected Present Value Technique**

820-10-55-13 The expected present value technique uses as a starting point a set of cash flows that, in theory, represents the probability-weighted average of all possible cash flows (that is, the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).

820-10-55-14 In making an investment decision, risk-averse market participants would consider the risk that the actual cash flows may ultimately differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

- a. **Unsystematic (diversifiable) risk**
- b. **Systematic (nondiversifiable) risk.**

820-10-55-15 Method 1 of the expected present value technique adjusts the expected cash flows for systematic (that is, market) risk by subtracting a cash risk premium (that is, risk-adjusted expected cash flows). These risk-adjusted expected cash flows represent a certainty equivalent cash flow, which is discounted at a risk-free interest rate. A certainty equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant were willing to trade an expected cash flow of \$1,200 for a certain cash flow of \$1,000, the \$1,000 is the certainty equivalent of the \$1,200 (that is, the \$200 would represent the cash risk premium). In that case, the market participant would be indifferent as to the asset held.

820-10-55-16 In contrast, Method 2 of the expected present value technique adjusts for systematic (that is, market) risk by adding a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (that is, an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

820-10-55-17 To illustrate Methods 1 and 2, assume that an asset has expected cash flows of \$780 in 1 year based on the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a 1-year horizon is 5 percent, and the systematic risk premium for an asset with the same risk profile is 3 percent.

<u>Possible Cash Flows</u>		<u>Probability</u>	<u>Probability-Weighted Cash Flows</u>	
\$	500	15%	\$	75
\$	800	60%	\$	480
\$	900	25%	\$	225
Expected cash flows			\$	<u>780</u>

820-10-55-18 In this simple illustration, the expected cash flows (\$780) represent the probability-weighted average of the 3 possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to consider distributions of literally all possible cash flows using complex models and techniques. Rather, it should be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, a reporting entity might use realized cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (for example, changes in external factors, including economic or market conditions, industry trends, and competition as well as changes in internal factors affecting the reporting entity more specifically), considering the assumptions of market participants.

820-10-55-19 In theory, the present value (that is, the fair value) of the asset's cash flows is the same (\$722) whether determined using Method 1 or Method 2, as indicated below. Specifically:

- a. Using Method 1, the expected cash flows are adjusted for systematic (that is, market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (that is, the cash risk premium of \$22) could be determined using the systematic risk premium of 3 percent ($\$780 - [\$780 \times (1.05/1.08)]$), which results in risk-adjusted expected cash flows of \$758 ($\$780 - \22). The \$758 is the certainty equivalent of \$780 and is discounted at the risk-free interest rate (5 percent). The present value (that is, the fair value) of the asset is \$722 ($\$758/1.05$).
- b. Using Method 2, the expected cash flows are not adjusted for systematic (that is, market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 percent (that is, the 5 percent risk-free interest rate plus the 3 percent systematic risk premium). The present value (that is, the fair value) of the asset is \$722 ($\$780/1.08$).

820-10-55-20 When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available, and the judgments applied.

>>> Fair Value Hierarchy

>>>> Level 2 Inputs

820-10-55-21 Examples of **Level 2 inputs** for particular assets and liabilities include the following:

- a. Receive-fixed, pay-variable interest rate swap based on the London Interbank Offered Rate (LIBOR) swap rate. A Level 2 input would be the LIBOR swap rate if that rate is observable at commonly quoted intervals for substantially the full term of the swap.
- b. Receive-fixed, pay-variable interest rate swap based on a foreign currency-denominated yield curve. A Level 2 input would be the swap rate based on a foreign currency-denominated yield curve that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years

and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for Year 10 would not be significant to the fair value measurement of the swap in its entirety.

- c. Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate. A Level 2 input would be the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.
- d. Three-year option on exchange-traded shares. A Level 2 input would be the implied volatility for the shares derived through extrapolation to Year 3 if both of the following conditions exist:
 - 1. Prices for one-year and two-year options on the shares are observable.
 - 2. The extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option.

In that case, the implied volatility could be derived by extrapolating from the implied volatility of the one-year and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the one-year and two-year implied volatilities is established.

- e. Licensing arrangement. For a licensing arrangement that is acquired in a **business combination** and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would include the royalty rate at inception of the arrangement.
- f. Finished goods inventory at retail outlet. For finished goods inventory that is acquired in a business combination, a Level 2 input would be either a price to customers in a retail market or a wholesale price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments should be used for the fair value measurement.
- g. Building held and used. A Level 2 input would be the price per square foot for the building (a valuation multiple) derived from observable market data, for example, multiples derived from prices in observed transactions involving comparable (similar) buildings in similar locations.
- h. Reporting unit. A Level 2 input would be a valuation multiple (for example, a multiple of earnings or revenue or a similar performance

measure) derived from observable market data, for example, multiples derived from prices in observed transactions involving comparable (similar) businesses, considering operational, market, financial, and nonfinancial factors.

> > > Level 3 Inputs

820-10-55-22 Examples of **Level 3 inputs** for particular assets and liabilities include the following:

- a. Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.
- b. Three-year option on exchange-traded shares. A Level 3 input would include historical volatility, that is, the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participant expectations about future volatility, even if it is the only information available to price an option.
- c. Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (nonbinding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.
- d. Asset retirement obligation at initial recognition. A Level 3 input would be a current estimate of the future cash outflows to be paid to fulfill the obligation (including the direct and indirect costs of fulfilling the obligation and the compensation that a market participant would require for taking on the asset retirement obligation) if those cash flows are developed using the reporting entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, for example, a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the reporting entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.
- e. Reporting unit. A Level 3 input would be a financial forecast (for example, of cash flows or earnings) developed using the reporting entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

> > > Disclosures—Valuation Techniques and Inputs

820-10-55-22A For fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, this Topic requires a reporting entity to disclose a description of the valuation technique(s) and the inputs used in the fair value measurement. A reporting entity might disclose the following to comply with the input disclosure requirement of paragraph 820-10-50-2(bbb):

- a. Quantitative information about the inputs, for example, for debt securities or derivatives, information such as, but not limited to, prepayment rates, rates of estimated credit losses, interest rates (for example, the LIBOR swap rate) or discount rates, and volatilities.
- b. The nature of the item being measured at fair value, including the characteristics of the item being measured that are considered in the determination of relevant inputs. For example, for residential mortgage-backed securities, a reporting entity might disclose the following:
 1. The types of underlying loans (for example, prime loans or subprime loans)
 2. Collateral
 3. Guarantees or other credit enhancements
 4. Seniority level of the tranches of securities
 5. The year of issue
 6. The weighted-average coupon rate of the underlying loans and the securities
 7. The weighted-average maturity of the underlying loans and the securities
 8. The geographical concentration of the underlying loans
 9. Information about the credit ratings of the securities.
- c. How third-party information such as broker quotes, pricing services, net asset values, and relevant market data was considered in measuring fair value.

820-10-55-22B In addition, a reporting entity should provide any other information that will help users of its financial statements to evaluate the quantitative information disclosed. For example, a reporting entity might disclose the following with respect to its investment in a class of residential mortgage-backed securities:

As of December 31, 20X1, the fair value of the reporting entity's investments in available-for-sale Level 3 residential mortgage-backed securities was \$XXX million. These securities are senior tranches in a securitization trust and have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. The underlying loans for these securities are

residential subprime mortgages that originated in California in 2006. The underlying loans have a weighted-average coupon rate of XX percent and a weighted-average maturity of XX years. These securities are currently rated below investment grade. To measure their fair value, the reporting entity used an industry standard pricing model, which uses an income approach. The significant inputs for the pricing model include the following weighted averages:

- a. Yield: XX percent
- b. Probability of default: XX percent constant default rate
- c. Loss severity: XX percent
- d. Prepayment: XX percent constant prepayment rate.

> > Scope Application to Receivables

820-10-55-23 The practical expedient in paragraph 310-10-35-22 (observable market price or the fair value of collateral if the loan is collateral-dependent) is a fair value measurement. Accordingly, if that practical expedient is used, the requirements in this Topic shall apply.

820-10-55-23A Paragraph not used.

820-10-55-23B Paragraph not used.

> > Liability Issued with an Inseparable Third-Party Credit Enhancement

820-10-55-23C Paragraph 820-10-35-18A specifies the guidance on accounting for and presentation of a liability issued with an inseparable third-party credit enhancement (for example, debt that is issued with a contractual third-party guarantee) when that liability is measured or disclosed at fair value on a recurring basis. That guidance does not address the accounting for a premium paid by the issuer for credit-enhanced liabilities that are not measured at fair value on a recurring basis, for example, if the issuer recognizes a credit-enhanced liability at amortized cost. However, that guidance (see paragraph 820-10-50-4A) does apply to the issuer's disclosure of fair value for that credit-enhanced liability.

820-10-55-23D For the issuer, the unit of accounting for a liability measured or disclosed at fair value does not include the third-party credit enhancement (for example, a third-party guarantee of debt). Any payments made by the guarantor in accordance with the guarantee result in a transfer of the issuer's debt obligation from the investor to the guarantor. The issuer's resulting debt obligation to the guarantor has not been guaranteed. Thus, the fair value of that obligation considers the issuer's credit standing and not the credit standing of the

guarantor. For example, when measuring the fair value of a liability with a third-party guarantee, the issuer would consider its own credit standing and not that of the third-party guarantor.

> Illustrations

820-10-55-24 The following Examples illustrate, in qualitative terms, the judgments a reporting entity that measures assets and liabilities at fair value might apply in different valuation situations.

> > Example 1: Highest and Best Use and Valuation Premise

820-10-55-25 Cases A through C illustrate the application of the highest-and-best-use and valuation premise concepts for nonfinancial assets.

> > > Case A: Asset Group

820-10-55-26 A reporting entity, a strategic buyer, acquires assets and assumes liabilities in a business combination. One of the groups of assets acquired comprises Assets A, B, and C. Asset C is billing software developed by the acquired entity for its own use in conjunction with Assets A and B (that is, the related assets). The reporting entity measures the fair value of each of the assets individually, consistent with the specified unit of account for the assets. The reporting entity determines that the highest and best use of the assets is their current use and that each asset would provide maximum value to market participants principally through its use in combination with other assets or with other assets and liabilities (that is, its complementary assets and liabilities). There is no evidence to suggest that there is an alternative use for the assets.

820-10-55-27 In this situation, the reporting entity would sell the assets in the market in which it initially acquired the assets (that is, the entry and exit markets from the perspective of the reporting entity are the same). Market participant buyers with whom the reporting entity would enter into a transaction in that market have characteristics that are generally representative of both financial buyers and strategic buyers and include those buyers that initially bid for the assets. Although market participant buyers might be broadly classified as strategic or financial buyers, there often will be differences among the market participant buyers within each of those groups, reflecting, for example, different uses for an asset and different operating strategies.

820-10-55-28 As discussed below, differences between the indicated fair values of the individual assets relate principally to the use of the assets by those market participants within different asset groups:

- a. Strategic buyer asset group. The reporting entity determines that strategic buyers have related assets that would enhance the value of the group within which the assets would be used (that is, market participant synergies). Those assets include a substitute asset for Asset C (the billing software), which would be used for only a limited transition period and could not be sold on its own at the end of that period. Because strategic buyers have substitute assets, Asset C would not be used for its full remaining economic life. The indicated fair values of Assets A, B, and C within the strategic buyer asset group (reflecting the synergies resulting from the use of the assets within that group) are \$360, \$260, and \$30, respectively. The indicated fair value of the assets as a group within the strategic buyer asset group is \$650.
- b. Financial buyer asset group. The reporting entity determines that financial buyers do not have related or substitute assets that would enhance the value of the group within which the assets would be used. Because financial buyers do not have substitute assets, Asset C (that is, the billing software) would be used for its full remaining economic life. The indicated fair values of Assets A, B, and C within the financial buyer asset group are \$300, \$200, and \$100, respectively. The indicated fair value of the assets as a group within the financial buyer asset group is \$600.

820-10-55-29 The fair values of Assets A, B, and C would be determined on the basis of the use of the assets as a group within the strategic buyer group (\$360, \$260, and \$30). Although the use of the assets within the strategic buyer group does not maximize the fair value of each of the assets individually, it maximizes the fair value of the assets as a group (\$650).

> > > Case B: Land

820-10-55-30 A reporting entity acquires land in a business combination. The land is currently developed for industrial use as a site for a factory. The current use of land often is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise condominiums. On the basis of that development and recent zoning and other changes to facilitate that development, the reporting entity determines that the land currently used as a site for a factory could be developed as a site for residential use (that is, for high-rise condominiums).

820-10-55-31 The highest and best use of the land would be determined by comparing both of the following:

- a. The value of the land as currently developed for industrial use (that is, the land is to be used in combination with other assets, such as the factory, or with other assets and liabilities)
- b. The value of the land as a vacant site for residential use, considering the costs of demolishing the factory and other costs (including the uncertainty about whether the reporting entity will be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (that is, the land is to be used on a standalone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use also might consider factors relating to the factory operations, including its assets and liabilities.

> > > Case C: In-Process Research and Development Project

820-10-55-32 A reporting entity acquires an in-process research and development project in a business combination. The reporting entity does not intend to complete the project. If completed, the project would compete with one of its own projects (to provide the next generation of the reporting entity's commercialized technology). Instead, the reporting entity intends to hold (lock up) the project to prevent its competitors from obtaining access to the technology. In doing this, the project is expected to provide defensive value, principally by improving the prospects for the reporting entity's own competing technology. To measure the fair value of the project at initial recognition, the highest and best use of the project would be determined on the basis of its use by market participants. For example:

- a. The highest and best use of the in-process research and development project would be to continue development if market participants would continue to develop the project and that use would maximize the value of the group of assets or of assets and liabilities in which the project would be used (that is, the asset would be used in combination with other assets or with other assets and liabilities). That might be the case if market participants do not have similar technology, either in development or commercialized. The fair value of the project would be measured on the basis of the price that would be received in a current transaction to sell the project, assuming that the in-process research and development would be used with its complementary assets and liabilities and that those assets and liabilities would be available to market participants.
- b. The highest and best use of the in-process research and development project would be to cease development if, for competitive reasons, market participants would lock up the project and that use would

maximize the value of the group of assets or of assets and liabilities in which the project would be used (that is, the asset would be used standalone as a locked-up project). That might be the case if market participants have technology in a more advanced stage of development that would compete with the project if completed and the project would be expected to improve the prospects for their own competing technology if locked up. The fair value of the project would be measured on the basis of the price that would be received in a current transaction to sell the project, assuming that the in-process research and development would be used (that is, locked up) with its complementary assets and liabilities and that those assets and liabilities would be available to market participants.

- c. The highest and best use of the in-process research and development project would be to cease development if market participants would discontinue its development. That might be the case if the project is not expected to provide a market rate of return if completed and would not otherwise provide defensive value if locked up. The fair value of the project would be measured on the basis of the price that would be received in a current transaction to sell the project by itself (which might be zero).

> > Example 2: Discount Rate Adjustment Technique—The Build-Up Approach

820-10-55-33 To illustrate a build-up approach (as discussed in paragraph 820-10-55-11), assume that Asset A is a contractual right to receive \$800 in 1 year (that is, there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

- a. Asset B is a contractual right to receive \$1,200 in 1 year and has a market price of \$1,083. Thus, the implied annual rate of return (that is, a 1-year-market rate of return) is 10.8 percent $[(\$1,200/\$1,083) - 1]$.
- b. Asset C is a contractual right to receive \$700 in 2 years and has a market price of \$566. Thus, the implied annual rate of return (that is, a 2-year market rate of return) is 11.2 percent $[(\$700/\$566)^{0.5} - 1]$.
- c. All three assets are comparable with respect to risk (that is, dispersion of possible payoffs and credit).

820-10-55-34 On the basis of the timing of the contractual payments to be received for Asset A (one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (\$800) and the 1-year market rate derived from Asset B (10.8 percent), the fair value of Asset A is \$722 ($\$800/1.108$). Alternatively, in the

absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case, the 2-year market rate indicated by Asset C (11.2 percent) would be adjusted to a 1-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premium for one-year and two-year assets is the same. If it is determined that the risk premium for one-year and two-year assets is not the same, the two-year market rate of return would be further adjusted for that effect.

> > Example 3: Use of Multiple Valuation Techniques

820-10-55-35 This Topic notes that a single valuation technique will be appropriate in some cases. In other cases, multiple valuation techniques will be appropriate. Cases A and B illustrate the use of multiple valuation techniques.

> > > Case A: Machine Held and Used

820-10-55-36 A reporting entity acquires a machine in a business combination. The machine will be held and used in its operations. The machine was originally purchased by the acquired entity from an outside vendor and, before the business combination, was customized by the acquired entity for use in its operations. However, the customization of the machine was not extensive. The acquiring entity determines that the asset would provide maximum value to market participants through its use in combination with other assets or with other assets and liabilities (as installed or otherwise configured for use). There is no evidence to suggest that there is an alternative use for the machine. Therefore, the highest and best use of the machine is its current use.

820-10-55-37 The reporting entity determines that sufficient data are available to apply the **cost approach** and, because the customization of the machine was not extensive, the **market approach**. The income approach is not used because the machine does not have a separately identifiable income stream from which to develop reliable estimates of future cash flows. Furthermore, information about short-term and intermediate-term lease rates for similar used machinery that otherwise could be used to project an income stream (that is, lease payments over remaining service lives) is not available. The market and cost approaches are applied as follows:

- a. The market approach is applied using quoted prices for similar machines adjusted for differences between the machine (as customized) and the similar machines. The measurement reflects the price that would be received for the machine in its current condition (used) and location (installed and configured for use). The fair value indicated by that approach ranges from \$40,000 to \$48,000.

- b. The cost approach is applied by estimating the amount that currently would be required to construct a substitute (customized) machine of comparable utility. The estimate considers the condition of the machine and the environment in which it operates, including physical wear and tear (that is, physical deterioration), improvements in technology (that is, functional obsolescence), conditions external to the condition of the machine such as a decline in the market demand for similar machines (that is, economic obsolescence), and installation costs. The fair value indicated by that approach ranges from \$40,000 to \$52,000.

820-10-55-38 The reporting entity determines that the higher end of the range indicated by the market approach is most representative of fair value than the fair value indicated by the cost approach and, therefore, ascribes more weight to the results of the market approach. That determination is made on the basis of the relative subjectivity of the inputs, considering the degree of comparability between the machine and the similar machines. In particular:

- a. The inputs used in the market approach (quoted prices for similar machines) require fewer and less subjective adjustments than the inputs used in the cost approach.
- b. The range indicated by the market approach overlaps with, but is narrower than, the range indicated by the cost approach.
- c. There are no known unexplained differences (between the machine and the similar machines) within that range.

The reporting entity determines that the fair value indicated by the market approach is more representative of fair value, largely because the majority of relevant data points in the market approach lie at or near the higher end of the range. Accordingly, the reporting entity determines that the fair value of the machine is \$48,000.

820-10-55-38A If customization of the machine was extensive or if there were not sufficient data available to apply the market approach (for example, because market data reflect transactions for machines used on a standalone basis [for example, a scrap value for specialized assets] rather than machines used in combination with other assets or with other assets and liabilities), the reporting entity would apply the cost approach. When an asset is used in combination with other assets or with other assets and liabilities, the cost approach assumes the sale of the machine to a market participant buyer with the complementary assets and liabilities. The price received for the sale of the machine (that is, an exit price) would not be more than the cost that a market participant buyer would incur to acquire or construct a substitute machine of comparable utility. Nor would that price be more than the economic benefit that a market participant buyer would derive from the use of the machine.

> > Case B: Software Asset

820-10-55-39 A reporting entity acquires a group of assets. The asset group includes an income-producing software asset internally developed for license to customers and its complementary assets and liabilities (including a related database with which the software asset is used). To allocate the cost of the group to the individual assets acquired, the reporting entity measures the fair value of the software asset. The reporting entity determines that the software asset would provide maximum value to market participants through its use in combination with other assets or with other assets and liabilities (that is, its complementary assets and liabilities). There is no evidence to suggest that there is an alternative use for the software asset. Therefore, the highest and best use of the software asset is its current use. (In this case, the licensing of the software asset, in and of itself, does not indicate that the fair value of the asset would be maximized through its use by market participants on a standalone basis.)

820-10-55-40 The reporting entity determines that, in addition to the income approach, sufficient data might be available to apply the cost approach but not the market approach. Information about market transactions for comparable software assets is not available. The income and cost approaches are applied as follows:

- a. The income approach is applied using a present value technique. The cash flows used in that technique reflect the income stream expected to result from the software asset (license fees from customers) over its economic life. The fair value indicated by that approach is \$15 million.
- b. The cost approach is applied by estimating the amount that currently would be required to construct a substitute software asset of comparable utility (that is, considering functional and economic obsolescence). The fair value indicated by that approach is \$10 million.

820-10-55-41 Through its application of the cost approach, the reporting entity determines that market participants would not be able to construct a substitute software asset of comparable utility. Some characteristics of the software asset are unique, having been developed using proprietary information, and cannot be readily replicated. The reporting entity determines that the fair value of the software asset is \$15 million, as indicated by the income approach.

> > Example 4: Fair Value Hierarchy—Level 1 Principal (or Most Advantageous) Market

820-10-55-42 Example 4 illustrates the use of **Level 1 inputs** to measure the fair value of an asset that trades in different **active markets** with different prices.

820-10-55-43 An asset is sold in two different active markets with different prices. The reporting entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is \$26, **transaction costs** in that market are \$3, and the costs to transport the asset to that market are \$2 (that is, the net amount that would be received is \$21). In Market B, the price that would be received is \$25, transaction costs in that market are \$1, and the costs to transport the asset to that market are \$2 (that is, the net amount that would be received in Market B is \$22).

820-10-55-44 If Market A is the **principal market** for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after considering **transportation costs** (\$24).

820-10-55-45 If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the **most advantageous market**. The most advantageous market is the market that maximizes the amount that would be received to sell the asset, after considering transaction costs and transportation costs (that is, the net amount that would be received in the respective markets).

820-10-55-45A Because the reporting entity would maximize the net amount that would be received for the asset in Market B (\$22), the fair value of the asset would be measured using the price in that market (\$25), less transportation costs (\$2), resulting in a measurement of \$23. Although transaction costs are considered when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transportation costs).

> > **Example 5: Transaction Prices and Initial Fair Value Measurement— Interest Rate Swap at Initial Recognition**

820-10-55-46 This Topic (see paragraphs 820-10-30-3 through 30-3A) clarifies that in many cases the transaction price, that is, the price paid (received) for a particular asset (liability), will represent the fair value of that asset (liability) at initial recognition, but not presumptively. This Example illustrates when the price in a transaction involving a derivative instrument might (and might not) equal the fair value of the instrument at initial recognition.

820-10-55-47 Entity A (a retail counterparty) enters into an interest rate swap in a retail market with Entity B (a securities dealer) for no initial consideration (that is, the transaction price is zero). Entity A can access only the retail market. Entity B

can access both the retail market (that is, with retail counterparties) and the **dealer market** (that is, with securities dealer counterparties).

820-10-55-48 From the perspective of Entity A, the retail market in which it initially entered into the swap is the principal market for the swap; if Entity A were to transfer its rights and obligations under the swap, it would do so with a securities dealer counterparty in that market. In that case, the transaction price (zero) would represent the fair value of the swap to Entity A at initial recognition, that is, the price that Entity A would receive to sell or pay to transfer the swap in a transaction with a securities dealer counterparty in the retail market (that is, an **exit price**). That price would not be adjusted for any incremental (transaction) costs that would be charged by that securities dealer counterparty.

820-10-55-49 From the perspective of Entity B, the dealer market (not the retail market) is the principal market for the swap; if Entity B were to transfer its rights and obligations under the swap, it would do so with a securities dealer in that market. Because the market in which Entity B initially entered into the swap is different from the principal market for the swap, the transaction price (zero) would not necessarily represent the fair value of the swap to Entity B at initial recognition.

820-10-55-50 Paragraph superseded by Accounting Standards Update 2010-XX.

> > **Example 6: Restricted Assets**

820-10-55-51 The effect on a fair value measurement arising from a restriction on the sale or use of an asset by a reporting entity will differ depending on whether the restriction would be considered by market participants when pricing the asset. Cases A and B illustrate the effect of restrictions when measuring the fair value of an asset.

> > > **Case A: Restriction on the Sale of an Equity Instrument**

820-10-55-52 A reporting entity holds an equity instrument (a **financial asset**) for which sale is legally restricted for a specified period. (For example, such a restriction could limit sale to qualifying investors, as may be the case in accordance with Rule 144 or similar rules of the Securities and Exchange Commission [SEC].) The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case, the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk

relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all of the following:

- a. The nature and duration of the restriction
- b. The extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors)
- c. Qualitative and quantitative factors specific to both the instrument and the issuer.

820-10-55-53 As discussed in Section 820-10-15, the guidance in this Topic applies for equity securities with restrictions that terminate within one year that are measured at fair value in accordance with the requirements in Subtopics 320-10 and 958-320.

> > **Case B: Restrictions on the Use of an Asset**

820-10-55-54 A donor contributes land in an otherwise developed residential area to a not-for-profit neighborhood association. The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the association determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the association sold the asset, that is, the donor restriction on the use of the land is specific to the association. Furthermore, the association is not restricted from selling the land. Without the restriction on the use of the land by the association, the land could be used as a site for residential development. In addition, the land is subject to an easement (a legal right that enables a utility to run power lines across the land). Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:

- a. Donor restriction on use of land. Because in this situation the donor restriction on the use of the land is specific to the association, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (that is, the fair value of the asset would be maximized through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (that is, the fair value of the asset would be maximized through its use by market participants on a standalone basis), regardless of the restriction on the use of the land by the association.
- b. Easement for utility lines. Because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to

market participants with the land. Therefore, the fair value measurement of the land would consider the effect of easement, regardless of whether the valuation premise is as a playground or as a site for residential development.

820-10-55-55 The donor restriction, which is legally binding on the association, would be indicated through classification of the associated net assets (permanently restricted) and disclosure of the nature of the restriction in accordance with paragraphs 958-210-45-8 through 45-9, 958-210-50-1, and 958-210-50-3.

> > **Example 7: Liabilities and Credit Risk**

820-10-55-56 Nonperformance risk relating to a liability includes, but may not be limited to, the reporting entity's own credit risk. A reporting entity should consider the effect of its credit risk (credit standing) on the fair value of the liability in all periods in which the liability is measured at fair value because those who hold the reporting entity's obligations as assets would consider the effect of the reporting entity's credit standing when estimating the prices they would be willing to pay. The following Cases illustrate these matters:

- a. Liabilities and credit risk, in general (Case A)
- b. Structured note (Case B).

> > > **Case A: Liabilities and Credit Risk—General**

820-10-55-57 This Case has the following assumptions:

- a. Entity X and Entity Y each enter into a contractual obligation to pay cash (\$500) to Entity Z in 5 years.
- b. Entity X has a AA credit rating and can borrow at 6 percent, and Entity Y has a BBB credit rating and can borrow at 12 percent.
- c. Entity X will receive about \$374 in exchange for its promise (the present value of \$500 in 5 years at 6 percent).
- d. Entity Y will receive about \$284 in exchange for its promise (the present value of \$500 in 5 years at 12 percent).

The fair value of the liability to each entity (that is, the proceeds) incorporates that reporting entity's credit standing.

> > > Case B: Structured Note

820-10-55-58 This Case illustrates the effect of credit standing on the fair value of a **financial liability** at initial recognition and in subsequent periods.

820-10-55-59 On January 1, 20X7, Entity A, an investment bank with an AA credit rating, issues a five-year fixed rate note to Entity B. The contractual principal amount to be paid by Entity A at maturity is linked to the Standard and Poor's S&P 500 index. No credit enhancements are issued in conjunction with or otherwise related to the contract (that is, no collateral is posted and there is no third-party guarantee). Entity A elects to account for the entire note at fair value in accordance with paragraph 815-15-25-4. The fair value of the note (that is, the obligation of Entity A) during 20X7 is measured using an expected present value technique. Changes in fair value are discussed below:

- a. Fair value at January 1, 20X7. The expected cash flows used in the expected present value technique are discounted at the risk-free rate using the treasury yield curve at January 1, 20X7, plus the current market observable AA corporate bond spread to treasuries adjusted (either up or down) for Entity A's specific credit risk (that is, resulting in a credit-adjusted risk-free rate). Therefore, the fair value of Entity A's obligation at initial recognition considers nonperformance risk, including that reporting entity's credit risk, which presumably is reflected in the proceeds.
- b. Fair value at March 31, 20X7. During March 20X7, the credit spread for AA corporate bonds widens, with no changes to the specific credit risk of Entity A. The expected cash flows used in the expected present value technique are discounted at the risk-free rate using the treasury yield curve at March 31, 20X7, plus the current market observable AA corporate bond spread to treasuries, adjusted for Entity A's specific credit risk (that is, resulting in a credit-adjusted risk-free rate). Entity A's specific credit risk is unchanged from initial recognition. Therefore, the fair value of Entity A's obligation changes as a result of changes in credit spreads generally. Changes in credit spreads reflect current market participant assumptions about changes in nonperformance risk generally and the compensation required for assuming this risk.
- c. Fair value at June 30, 20X7. As of June 30, 20X7, there have been no changes to the AA corporate bond spreads. However, on the basis of structured note issues corroborated with other qualitative information, Entity A determines that its own specific creditworthiness has strengthened within the AA credit spread. The expected cash flows used in the expected present value technique are discounted at the risk-free rate using the treasury yield curve at June 30, 20X7, plus the

current market observable AA corporate bond spread to treasuries (unchanged from March 31, 20X7), adjusted for Entity A's specific credit risk (that is, resulting in a credit-adjusted risk-free rate). Therefore, the fair value of the obligation of Entity A changes as a result of the change in its own specific credit risk within the AA corporate bond spread.

> > Example 7A: Measuring Fair Value When the Volume and Level of Activity for an Asset or a Liability Have Significantly Decreased

820-10-55-59A This Example illustrates the use of judgement when measuring the fair value of a financial asset when there has been a significant decrease in the volume and level of activity for the asset when compared with normal market activity for the asset (or similar assets). (See paragraphs 820-10-35-54C through 35-54H.) This Example has all of the following assumptions:

- a. Entity A invests in a junior AAA-rated tranche of a residential mortgage-backed security on January 1, 20X8 (the issue date of the security).
- b. The junior tranche is the third most senior of a total of seven tranches.
- c. The underlying collateral for the residential mortgage-backed security is unguaranteed Alternative A (Alt-A) nonconforming residential mortgage loans that were issued in the second half of 20X6.
- d. At March 31, 20X9 (the measurement date), the junior tranche is now A-rated. This tranche of the residential mortgage-backed security was previously traded through a **brokered market**; however, trading volume in that market was infrequent, with only a few transactions taking place per month from January 1, 20X8, through June 30, 20X8, and little, if any, trading activity during the nine months before March 31, 20X9.

820-10-55-59B Entity A considers the factors in paragraph 820-10-35-54C to determine whether there has been a significant decrease in the volume and level of activity for the junior tranche of the residential mortgage-backed security in which it has invested. After evaluating the significance and relevance of the factors, Entity A concludes that the volume and level of activity of the junior tranche of the residential mortgage-backed security have significantly decreased. Entity A supported its judgment primarily on the basis that there was little, if any, trading activity for an extended period of time before the measurement date.

820-10-55-59C Because there is little, if any, trading activity to support a valuation technique using a market approach, Entity A decides to use an income approach using the discount rate adjustment technique described beginning in paragraph 820-10-55-10 to measure the fair value of the residential mortgage-backed security at the measurement date. (See paragraph 820-10-35-36.) Entity A uses the contractual cash flows from the residential mortgage-backed security. The discount rate adjustment technique described beginning in paragraph 820-

10-55-10 would not be appropriate when determining whether there has been an other-than-temporary impairment and/or a change in yield in accordance with paragraph 325-40-35-4 when that technique uses contractual cash flows rather than most likely cash flows.

820-10-55-59D Entity A then estimates a discount rate (that is, a market rate of return) to discount those contractual cash flows. The market rate of return is estimated using both of the following:

- a. The risk-free rate of interest
- b. Estimated adjustments for differences between the available market data and the junior tranche of the residential mortgage-backed security in which Entity A has invested. Those adjustments reflect available market data about expected nonperformance and other risks (for example, default risk, collateral value risk, and liquidity risk) that market participants would consider when pricing the asset in an orderly transaction at the measurement date under current market conditions.

820-10-55-59E Entity A considered the following information when estimating the adjustments in the preceding paragraph:

- a. The credit spread for the junior tranche of the residential mortgage-backed security at the issue date as implied by the original transaction price
- b. The change in credit spread implied by any observed transactions from the issue date to the measurement date for comparable residential mortgage-backed securities or on the basis of relevant indexes
- c. The characteristics of the junior tranche of the residential mortgage-backed security compared with comparable residential mortgage-backed securities or indexes, including all of the following:
 1. The quality of the underlying assets (that is, information about the performance of the underlying mortgage loans) such as all of the following:
 - i. Delinquency rates
 - ii. Foreclosure rates
 - iii. Loss experience
 - iv. Prepayment rates.
 2. The seniority or subordination of the residential mortgage-backed security tranche held
 3. Other relevant factors.
- d. Relevant reports issued by analysts and rating agencies
- e. Quoted prices from third parties such as brokers or pricing services.

820-10-55-59F Entity A estimates that one indication of the market rate of return that market participants would use when pricing the junior tranche of the residential mortgage-backed security is 12 percent (1,200 basis points). This market rate of return was estimated as follows:

- a. Begin with 300 basis points for the relevant risk-free rate of interest at March 31, 20X9.
- b. Add 250 basis points for the credit spread over the risk-free rate when the junior tranche was issued in January 20X8.
- c. Add 700 basis points for the estimated change in the credit spread over the risk-free rate of the junior tranche between January 1, 20X8, and March 31, 20X9. This estimate was developed on the basis of the change in the most comparable index available for that time period.
- d. Subtract 50 basis points (net) to adjust for differences between the index used to estimate the change in credit spreads and the junior tranche. The referenced index consists of subprime mortgage loans, whereas Entity A's residential mortgage-backed security consists of Alt-A mortgage loans with a more favorable credit profile (making it more attractive to market participants). However, the index does not reflect an appropriate liquidity risk premium for the junior tranche under current market conditions. Thus, the 50 basis point adjustment is the net of two adjustments.
 1. The first adjustment is a 350 basis point subtraction, which was estimated by comparing the implied yield from the most recent transactions for the residential mortgage-backed security in June 20X8 with the implied yield in the index price on those same dates. There was no information available that indicated that the relationship between Entity A's security and the index has changed.
 2. The second adjustment is a 300 basis point addition, which is Entity A's best estimate of the additional liquidity risk inherent in its security (a cash position) when compared with the index (the synthetic position). This estimate was derived after considering liquidity risk premiums implied in recent cash transactions for a range of similar securities.

820-10-55-59G As an additional indication of the market rate of return, Entity A considers 2 recent indicative quotes (that is, nonbinding quotes) provided by reputable brokers for the junior tranche of the residential mortgage-backed security that imply yields of 15 to 17 percent. Entity A is unable to evaluate the valuation technique(s) or inputs used to develop the quotes. However, Entity A is able to confirm that the quotes do not reflect the results of transactions.

820-10-55-59H Because Entity A has multiple indications of the market rate of return that market participants would consider when measuring fair value, it

evaluates and weights the respective indications of the rate of return, considering the reasonableness of the range indicated by the results.

- a. Subparagraph superseded by Accounting Standards Update 2010-XX.
- b. Subparagraph superseded by Accounting Standards Update 2010-XX.

820-10-55-59HH Entity A concludes that 13 percent is the point within the range of indications that is most representative of fair value under current market conditions. Entity A places more weight on the 12 percent indication (that is, its own estimate of the market rate of return) for the following reasons:

- a. Entity A concluded that its own estimate appropriately incorporated the risks (for example, default risk, collateral value risk, and liquidity risk) that market participants would use when pricing the asset in an orderly transaction under current market conditions.
- b. The broker quotes were nonbinding and did not reflect the results of transactions, and Entity A was unable to evaluate the valuation technique(s) or inputs used to develop the quotes.

820-10-55-59I Paragraph superseded by Accounting Standards Update 2010-XX.

820-10-55-59J If Entity A determines that the market rate of return is an unobservable (that is, Level 3) input and the fair value measurement of the junior tranche of the residential mortgage-backed security would be categorized within Level 3 of the fair value hierarchy, Entity A would need to determine whether changing that input to a different amount that could have reasonably been used would have resulted in a significantly higher or lower fair value of the security. If so, Entity A would provide a measurement uncertainty analysis disclosure describing the effect of using that different amount and how it calculated that effect, including the effect of correlation, if any, between that input and other unobservable inputs.

820-10-55-59K Paragraph not used.

820-10-55-59L Paragraph not used.

820-10-55-59M Paragraph not used.

> > Example 8: Fair Value Disclosures

820-10-55-60 The disclosures required by paragraphs 820-10-50-2(a) through (d), 820-10-50-5(a) through (b), and 820-10-50-6A are illustrated by the following Cases:

- a. Assets measured at fair value (Case A)
- b. Fair value measurements categorized within Level 3 of the fair value hierarchy (Case B)
- c. Subparagraph superseded by Accounting Standards Update 2010-XX.
- d. Disclosure—fair value measurements of investments in certain entities that calculated net asset value per share (or its equivalent) (Case D).

> > > Case A: Disclosure—Assets Measured at Fair Value

820-10-55-61 For assets and liabilities measured at fair value at the reporting date, this Topic requires quantitative disclosures about the fair value measurements for each class of assets and liabilities. A reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2(a) through (b).

(\$ in millions)

Fair Value Measurements at Reporting Date Using

Description	Fair Value Measurements at Reporting Date Using			
	12/31/X9	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements				
Trading securities ^(a)				
Equity securities—real estate industry	\$ 93	\$ 70	\$ 23	
Equity securities—oil and gas industry	45	45		
Equity securities—other	15	15		
Total trading securities	<u>\$ 153</u>	<u>\$ 130</u>	<u>\$ 23</u>	
Available-for-sale debt securities				
Residential mortgage-backed securities	\$ 149		\$ 24	\$ 125
Commercial mortgage-backed securities	50			50
Collateralized debt obligations	35			35
U.S. Treasury securities	85	\$ 85		
Corporate bonds	93	9	84	
Total available-for-sale debt securities	<u>\$ 412</u>	<u>\$ 94</u>	<u>\$ 108</u>	<u>\$ 210</u>
Available-for-sale equity securities ^(a)				
Financial services industry	\$ 150	\$ 150		
Healthcare industry	110	110		
Other	15	15		
Total available-for-sale equity securities	<u>\$ 275</u>	<u>\$ 275</u>		
Total available-for-sale securities	<u>\$ 687</u>	<u>\$ 369</u>	<u>\$ 108</u>	<u>\$ 210</u>
Hedge fund investments				
Equity long/short	\$ 55	\$ 55		
Global opportunities	35	35		
High-yield debt securities	90			\$ 90
Total hedge fund investments	<u>\$ 180</u>	<u>\$ 90</u>		<u>\$ 90</u>
Private equity investments ^(b)	\$ 25			\$ 25
Venture capital investments ^(b)	10			10
Derivatives				
Interest rate contracts	57		\$ 57	
Foreign exchange contracts	43		43	
Credit contracts	38			38
Commodity futures contracts	78	\$ 78		
Commodity forward contracts	20		20	
Total derivatives	<u>\$ 236</u>	<u>\$ 78</u>	<u>\$ 120</u>	<u>\$ 38</u>
Total recurring fair value measurements	<u>\$ 1,291</u>	<u>\$ 667</u>	<u>\$ 251</u>	<u>\$ 373</u>
Nonrecurring fair value measurements				
Long-lived assets held and used ^(c)	\$ 75		\$ 75	
Goodwill ^(d)	30			\$ 30
Long-lived assets held for sale ^(e)	26		26	
Total nonrecurring fair value measurements	<u>\$ 131</u>		<u>\$ 101</u>	<u>\$ 30</u>

- (a) Based on its analysis of the nature and risks of these securities, the reporting entity has determined that presenting them by industry is appropriate.
- (b) Based on its analysis of the nature and risks of these investments, the reporting entity has determined that presenting them as a single class is appropriate.
- (c) In accordance with Subtopic 360-10, long-lived assets held and used with a carrying amount of \$100 million were written down to their fair value of \$75 million, resulting in an impairment charge of \$25 million, which was included in earnings for the period.
- (d) In accordance with Subtopic 350-20, goodwill with a carrying amount of \$65 million was written down to its implied fair value of \$30 million, resulting in an impairment charge of \$35 million, which was included in earnings for the period.
- (e) In accordance with Subtopic 360-10, long-lived assets held for sale with a carrying amount of \$35 million were written down to their fair value of \$26 million, less cost to sell of \$6 million (or \$20 million), resulting in a loss of \$15 million, which was included in earnings for the period.

(Note: For liabilities, a similar table should be presented.)

> > > Case B: Disclosure—Fair Value Measurements in Level 3 of the Fair Value Hierarchy

820-10-55-62 For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reconciliation from the opening balances to the closing balances for each class of assets and liabilities, except for derivative assets and liabilities, which may be presented net. A reporting entity might disclose the following for assets to comply with paragraph 820-10-50-2(c) through (d):

(\$ in millions)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	Available-for-Sale Debt Securities			Other Fund Investments			Derivatives
	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	Hedge Fund High-Yield Debt Securities	Private Equity	Venture Capital	Credit Contracts
Beginning balance	\$ 105	\$ 39	\$ 25	\$ 145	\$ 20	\$ 11	\$ 30
Transfers into Level 3	60 ^(a)						
Transfers out of Level 3	(5) ^(b)						
Total gains or losses for the period							
Included in earnings (or changes in net assets)	(8)			7	5	(3)	5
Included in other comprehensive income	(15)	(5)	(7)				(5)
Purchases, issues, sales, and settlements							
Purchases		16	17			2	18
Issues							
Sales	(12)			(62)			(74)
Settlements							(10)
Ending balance	\$ 125	\$ 50	\$ -35	\$ 90	\$ 25	\$ 10	\$ 38
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the reporting date				\$ (5)	\$ 5	\$ (3)	\$ 2

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data because of a decrease in market activity for these securities.

(b) The reporting entity's policy is to recognize transfers into and transfers out of Level 3 as of the actual date of the event or change in circumstances that caused the transfer.

(c) Transferred from Level 3 to Level 2 because observable market data became available for these securities.

(Note: For liabilities, a similar table should be presented.)

820-10-55-63 Gains and losses included in earnings (or changes in net assets) for the period (above) are presented in trading revenues and in other revenues as follows:

	<u>Trading Revenues</u>	<u>Other Revenues</u>
Total gains or losses for the period included in earnings (or changes in net assets)	<u>\$ 5</u>	<u>\$ 1</u>
Change in unrealized gains or losses for the period included in earnings (or changes in net assets) for assets held at the reporting date	<u>\$ 2</u>	<u>\$ (3)</u>

(Note: For liabilities, a similar table should be presented.)

820-10-55-64 Paragraph superseded by Accounting Standards Update 2010-XX.

> > > Case D: Disclosure—Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

820-10-55-64A For investments that are within the scope of paragraphs 820-10-15-4 through 15-5 measured at fair value during the period, in addition to the disclosures required in paragraphs 820-10-50-1 through 50-2, this Topic requires a reporting entity to disclose information that enables users to understand the nature, characteristics, and risks of the investments by class and whether the investments are probable of being sold at amounts different from net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) (see paragraph 820-10-50-6A). That information may be presented as follows. (The classes presented below are provided as examples only and are not intended to be treated as a template. The classes disclosed should be tailored to the nature, characteristics, and risks of the reporting entity's investments.)

	Fair Value (in millions)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds ^(a)	\$ 55		quarterly	30–60 days
Event driven hedge funds ^(b)	45		quarterly, annually	30–60 days
Global opportunities hedge funds ^(c)	35		quarterly	30–45 days
Multi-strategy hedge funds ^(d)	40		quarterly	30–60 days
Real estate funds ^(e)	47	\$ 20		
Private equity funds—international ^(f)	43	15		
Total	<u>\$ 265</u>	<u>\$ 35</u>		

- a. This class includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 22 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 20X3.
- b. This class includes investments in hedge funds that invest in approximately 60 percent equities and 40 percent bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.
- c. This class includes investments in hedge funds that hold approximately 80 percent of the funds' investments in non-U.S. common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors and approximately 20 percent of the funds' investments in diversified currencies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. For one investment, valued at \$8.75 million, a gate has been imposed by the hedge fund manager and no redemptions are currently permitted. This redemption restriction has been in place for six months and the time at which the redemption restriction might lapse cannot be estimated.

- d. This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this class includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 15 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 20X3.
- e. This class includes several real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years. Twenty percent of the total investment in this class is planned to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Company's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an action process. The investee fund's management must approve of the buyer before the sale of the investments can be completed.
- f. This class includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 8 years. However, as of December 31, 20X3, it is probable that all of the investments in this class will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 20X3, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve of the buyer before the sale of the investments can be completed.

> > Example 9: Liabilities and Credit Risk

820-10-55-65 The following Cases illustrate the measurement of liabilities and the effect of nonperformance risk (including credit risk) on a fair value measurement:

- a. Asset Retirement Obligation (Case A)
- b. Debt Obligation: Quoted Price (Case B)
- c. Debt Obligation: Present Value Technique (Case C).

> > Case A: Asset Retirement Obligation

820-10-55-66 On January 1, 20X1, Entity A assumes an asset retirement obligation in a business combination. The reporting entity is legally required to dismantle and remove an offshore oil platform at the end of its useful life, which is estimated to be 10 years.

820-10-55-67 On the basis of the guidance in paragraph 410-20-30-1, Entity A uses the expected present value technique to measure the fair value of the asset retirement obligation.

820-10-55-68 If Entity A were contractually allowed to transfer its asset retirement obligation to a market participant, Entity A concludes that a market participant would use all of the following inputs, probability-weighted as appropriate, when estimating the price it would expect to receive:

- a. Labor costs
- b. Allocation of overhead costs
- c. The compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset. Such compensation includes both of the following:
 1. Profit on labor and overhead costs
 2. The risk that the actual cash outflows ultimately might differ from those expected, excluding inflation.
- d. Effect of inflation on estimated costs and profits
- e. Subparagraph superseded by Accounting Standards Update 2010-XX.
- f. Time value of money, represented by the risk-free rate
- g. Nonperformance risk relating to the risk that Entity A will not fulfill the obligation, including Entity A's own credit risk.

820-10-55-69 The significant assumptions used by Entity A to measure fair value are as follows:

- a. Labor costs are developed on the basis of current marketplace wages, adjusted for expectations of future wage increases, required to hire contractors to dismantle and remove offshore oil platforms. Entity A assigns probability assessments to a range of cash flow estimates as follows:

<u>Cash Flow Estimate</u>	<u>Probability Assessment</u>	<u>Expected Cash Flows</u>
\$ 100,000	25%	\$ 25,000
\$ 125,000	50%	62,500
\$ 175,000	25%	43,750
		<u>\$ 131,250</u>

The probability assessments are developed on the basis of Entity A's experience with fulfilling obligations of this type and its knowledge of the market.

- b. Entity A estimates allocated overhead and equipment operating costs using the rate it applies to labor costs (80 percent of expected labor costs). This is consistent with the cost structure of market participants.
- c. Entity A estimates the compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset as follows:
1. A third-party contractor typically adds a mark-up on labor and allocated internal costs to provide a profit margin on the job. The profit margin used (20 percent) represents Entity A's understanding of the operating profit that contractors in the industry generally earn to dismantle and remove offshore oil platforms. Entity A concludes that this rate is consistent with the rate that a market participant would require as compensation for undertaking the activity.
 2. A contractor would typically require compensation for the risk that the actual cash outflows ultimately might differ from those expected given the uncertainty inherent in locking in today's price for a project that will not occur for 10 years. Entity A estimates the amount of that premium to be 5 percent of the expected cash flows, adjusted for inflation.
- d. Entity A assumes a rate of inflation of 4 percent over the 10-year period on the basis of available market data.
- e. Subparagraph superseded by Accounting Standards Update 2010-XX.
- f. The risk-free rate of interest for a 10-year maturity on January 1, 20X1, is 5 percent. Entity A adjusts that rate by 3.5 percent to reflect its risk of nonperformance (that is, the risk that it will not fulfill the obligation), including its credit risk. Therefore, the discount rate used to compute the present value of the cash flows is 8.5 percent.

820-10-55-70 Entity A concludes that its assumptions would be used by market participants. In addition, Entity A does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability. As illustrated in the following table, Entity A estimates the fair value of its liability for the asset retirement obligation to be \$194,879.

	Expected Cash Flows 1/1/X1
Expected labor costs	\$ 131,250
Allocated overhead and equipment costs (.80 x \$131,250)	\$ 105,000
Contractor's profit markup [.20 x (\$131,250 + \$105,000)]	\$ 47,250
Expected cash flows before inflation adjustment	<u>\$ 283,500</u>
Inflation factor (4% for 10 years)	1.4802
Expected cash flows adjusted for inflation	<u>\$ 419,637</u>
Market risk premium (.05 x \$419,637)	\$ 20,982
Expected cash flows adjusted for market risk	<u>\$ 440,619</u>
Expected present value using discount rate of 8.5% for 10 years	<u><u>\$ 194,879</u></u>

> > **Case B: Debt Obligation: Quoted Price**

820-10-55-71 On January 1, 20X1, Entity B issues at par a \$2 million BBB-rated exchange-traded 5-year fixed-rate debt instrument with an annual 10 percent interest coupon. Entity B has elected to account for this instrument under the fair value option.

820-10-55-72 On December 31, 20X1, the instrument is trading as an asset in an active market at \$929 per \$1,000 of par value after payment of accrued interest. Entity B uses the quoted price of the asset in an active market as its initial input into the fair value measurement of its liability ($\$929 \times [\$2 \text{ million} \div \$1,000] = \$1,858,000$).

820-10-55-72A In determining whether the quoted price of the asset in an active market represents the fair value of the liability, Entity B evaluates whether the quoted price of the asset includes the effect of factors not applicable to the fair value measurement of a liability, for example, whether the quoted price of the asset includes the effect of third-party credit enhancements. Entity B determines that no adjustments are required to the quoted price of the asset. Accordingly, Entity B concludes that the fair value of its debt instrument at December 31, 20X1, is \$1,858,000. Entity B categorizes and discloses the fair value measurement of its debt instrument within Level 1 of the fair value hierarchy.

> > > Case C: Debt Obligation: Present Value Technique

820-10-55-73 On January 1, 20X1, Entity C issues at par in a private placement a \$2 million BBB-rated 5-year fixed-rate debt instrument with an annual 10 percent interest coupon. Entity C has elected to account for this instrument under the fair value option.

820-10-55-74 At December 31, 20X1, Entity C still carries a BBB credit rating. Market conditions, including available interest rates, credit spreads for a BBB-quality credit rating and liquidity, remain unchanged from the date the debt instrument was issued. However, Entity C's credit spread has deteriorated by 50 basis points because of a change in its risk of nonperformance. After considering all market conditions, Entity C concludes that if it were to issue the instrument at the measurement date, the instrument would bear a rate of interest of 10.5 percent or Entity C would receive less than par in proceeds from the issue of the instrument.

820-10-55-75 For the purpose of this example, the fair value of Entity C's liability is calculated using a present value technique. Entity C concludes that a market participant would use all of the following inputs (consistent with paragraph 820-10-55-5) when estimating the price the market participant would expect to receive to assume Entity C's obligation:

- a. Terms of the debt instrument, including all of the following:
 1. Coupon interest rate of 10 percent
 2. Principal amount of \$2 million
 3. Term of 4 years.
- b. Change of 50 basis points in the risk of nonperformance from the date of issue.

820-10-55-76 On the basis of its present value technique, Entity C concludes that the fair value of its liability at December 31, 20X1, is \$1,968,641.

820-10-55-76A Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Because Entity C's obligation is a financial liability, Entity C concludes that the interest rate already captures the risk or profit that a market participant would require for compensation for assuming the liability. Furthermore, Entity C does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability.

> > Example 10—Measurement Uncertainty Analysis

820-10-55-77 For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reporting entity to provide a measurement uncertainty analysis. The objective of that analysis is to provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy at the measurement date.

820-10-55-78 To meet that objective, this Topic requires a reporting entity to take into account the effect of correlation between unobservable inputs if such correlation is relevant when estimating the effect on the fair value measurement of a change in an unobservable input.

820-10-55-79 When disclosing how a reporting entity calculated the effect on the fair value measurement of changing one or more of the unobservable inputs to a different amount that could have reasonably been used in the circumstances, a reporting entity might compare the unobservable inputs used in the fair value measurement with the different amounts used in the measurement uncertainty analysis.

820-10-55-80 A reporting entity might disclose the following for assets when applying paragraph 820-10-50-2(f).

Measurement Uncertainty Analysis for Recurring Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(\$ in millions)

	Fair Value at 12/31/19	Difference in Fair Value from Using Different Unobservable Inputs That Could Have Reasonably Been Used		Significant Unobservable Inputs
		Increase in Fair Value	Decrease in Fair Value	
Available-for-sale debt securities				
Residential mortgage-backed securities	\$ 125	\$ 24	\$ (18)	Prepayment rates, probability of default, severity of loss, yield (including the effect of correlation between prepayment rates and probability of default)
Commercial mortgage-backed securities	50	13	(6)	Probability of default, severity of loss, yield
Collateralized debt obligations	35	5	(3)	Implied collateral valuation, default rates, housing prices
Total available-for-sale debt securities	<u>\$ 210</u>	<u>\$ 42</u>	<u>\$ (27)</u>	
Hedge fund investments				
High-yield debt securities	\$ 90	\$ 5	(3)	Net asset value provided by the investee
Total hedge fund investments	<u>\$ 90</u>	<u>\$ 5</u>	<u>\$ (3)</u>	
Private equity investments	\$ 25	\$ 4	(3)	Net asset value provided by the investee
Venture capital investments	10	3	(2)	Net asset value provided by the investee
Derivatives				
Credit contracts	38	6	(5)	Volatility of credit
Total derivatives	<u>\$ 38</u>	<u>\$ 6</u>	<u>\$ (5)</u>	
Total	<u>\$ 373</u>	<u>\$ 60</u>	<u>\$ (40)</u>	

(Note: For liabilities, a similar table should be presented.)

820-10-55-81 In addition, a reporting entity should provide any other information that will help users of its financial statements to evaluate the quantitative information disclosed. For example, a reporting entity might describe the relative subjectivity and limitations of the **unobservable inputs** and the range of unobservable inputs used.

> Transition Related to Accounting Standards Update No. 2010-XX, *Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*

820-10-65-8 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, *Fair Value Measurements and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*:

- a. A reporting entity shall apply the pending content that links to this paragraph, except the disclosure requirements, by reporting a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the pending content that links to this paragraph is initially applied. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position immediately after initial application of the pending content that links to this paragraph.
- b. A reporting entity shall disclose the pending content that links to this paragraph prospectively as of the beginning of the fiscal year in which that content is initially adopted.

Amendments to Master Glossary

Acquiree

The business or businesses that the acquirer obtains control of in a business combination. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an acquisition by a not-for-profit entity.

Acquirer

The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a not-for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Active Market

A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Brokered Market

A market in which brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also Acquisition by a Not-for-Profit Entity.

Control

The direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise.

Cost Approach

A valuation technique that reflects the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost).

Currency Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Dealer Market

A market in which dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically, bid and ask prices (representing the price the dealer is willing to pay and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (where prices are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC) are dealer markets. For example, the market for U.S. Treasury securities is a dealer market. Dealer markets also exist for some other assets and liabilities, including other financial instruments, commodities, and physical assets (for example, certain used equipment).

Discount Rate Adjustment Technique

A present value technique that uses a risk-adjusted discount rate and contractual, promised, or most likely cash flows.

Entry Price

The price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exchange Market

A market in which closing prices are both readily available and generally representative of fair value. An example of such a market is the New York Stock Exchange.

Exit Price

The price that would be received to sell an asset or paid to transfer a liability.

Expected Cash Flow

The sum of probability-weighted amounts in a range of possible estimated amounts; the estimated mean or average.

Fair Value

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.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

- a. Receive cash or another financial instrument from a second entity
- b. Exchange other financial instruments on potentially favorable terms with the second entity.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation either:
 1. To deliver cash or another financial instrument to a second entity
 2. To exchange other financial instruments on potentially unfavorable terms with the second entity.
- b. Conveys to that second entity a contractual right either:
 1. To receive cash or another financial instrument from the first entity
 2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Financial Liability

A contract that imposes on one entity an obligation to do either of the following:

- a. Deliver cash or another financial instrument to a second entity
- b. Exchange other financial instruments on potentially unfavorable terms with the second entity.

Highest and Best Use

The use of a nonfinancial asset by market participants that would maximize the value of the asset or the group of assets and liabilities (for example, a business) within which the asset would be used.

Income Approach

Valuation techniques that convert future amounts (for example, cash flows or income and expenses) to a single (discounted) present amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Incremental Direct Costs

Incremental direct costs to sell an asset or transfer a liability refer to those costs that are directly attributable to the disposal of an asset or the transfer of a liability and meet both of the following criteria:

- a. They result directly from and are essential to that transaction.
- b. They would not have been incurred by the reporting entity had the decision to sell the asset or transfer the liability not been made (similar to cost to sell, as defined in paragraph 360-10-35-38).

Inputs

The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, for example, the following:

- a. The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model)
- b. The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 Inputs

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 Inputs

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs

Unobservable inputs for the asset or liability.

Liability Issued with an Inseparable Third-Party Credit Enhancement

A liability that is issued with a credit enhancement obtained from a third party, such as debt that is issued with a financial guarantee from a third party that guarantees the issuer's payment obligation.

Management

Persons who are responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policy making functions. Persons without formal titles also may be members of management.

Market Approach

A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets or liabilities (including a business).

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- a. Independent of each other, that is, they are not **related parties**, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
- b. Knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
- c. Able to enter into a transaction for the asset or liability
- d. Willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Market Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises the following:

- a. **Interest rate risk**
- b. **Currency risk**
- c. **Other price risk.**

Market-corroborated Inputs

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Most Advantageous Market

The market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after considering transaction costs and transportation costs.

Net Asset Value per Share

Net asset value per share is the amount of net assets attributable to each share of capital stock (other than senior equity securities, that is, preferred stock) outstanding at the close of the period. It excludes the effects of assuming

conversion of outstanding convertible securities, whether or not their conversion would have a diluting effect.

Nonperformance Risk

The risk that an entity will not fulfill an obligation. Nonperformance risk affects the value at which the liability is transferred. Nonperformance risk includes, but may not be limited to, the reporting entity's own credit risk.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Observable Inputs

Inputs that are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Other Price Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Present Value

Present value is a tool used to link future amounts (cash flows or values) to a present amount using a discount rate (an application of the income approach). Present value techniques differ in how they adjust for risk and in the type of cash flows they use. See **Discount Rate Adjustment Technique**.

Principal Market

The market with the greatest volume and level of activity for the asset or liability.

Principal-to-Principal Market

A market in which transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be released publicly.

Readily Determinable Fair Value

An equity security has a readily determinable fair value if it meets any of the following conditions:

- a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by Pink Sheets LLC. Restricted stock meets that definition if the restriction terminates within one year.
- b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.
- c. The fair value of an investment in a mutual fund is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

Related Parties

Related parties include:

- a. Affiliates of the entity
- b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825–10–15, to be accounted for by the equity method by the investing entity
- c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d. Principal owners of the entity and members of their immediate families
- e. Management of the entity and members of their immediate families

- f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Risk Premium

Compensation generally sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a risk adjustment.

Systematic Risk

The amount by which an asset or a liability increases the variance of a diversified portfolio when it is added to that portfolio. Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.) Also referred to as nondiversifiable risk.

Transaction Costs

The **incremental direct costs** to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability.

Transportation Costs

The costs that would be incurred to transport an asset to or from its principal (or most advantageous) market.

Unit of Account

The level at which an asset or a liability is aggregated or disaggregated in a Topic.

Unobservable Inputs

Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Unsystematic Risk

The risk specific to a particular asset or liability. Also referred to as diversifiable risk.

Amendments to the XBRL Taxonomy

The following elements are proposed additions or modifications to the XBRL taxonomy as a result of the amendments in this proposed Update. (Elements that currently exist in the 2009 taxonomy are marked with an asterisk* and have been **bolded**. If an existing element was modified, it has been marked to reflect any changes.)

Standard Label [†]	Definition	Codification Reference
Fair Value, Asset and Liability Measurement Inputs [Abstract]		
Fair Value, Asset and Liability Measurement Inputs [Text Block]	This element represents the disclosure related to assets and liabilities, including [financial] instruments that are classified in a reporting entity's shareholders' equity, if any, that are measured at fair value in the statement of financial position after initial recognition. The disclosures contemplated herein include the fair value measurements at the reporting date by the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).	820-10-50-1 820-10-50-2 825-10-50-10(d)
Fair Value, Asset and Liability Measurement Inputs [Table]	Summarization of information required to be disclosed concerning assets and liabilities, including [financial] instruments that are classified in shareholders' equity, that are measured at fair value.	820-10-50-1 820-10-50-2 825-10-50-10(d)

[†]The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label [†]	Definition	Codification Reference
Fair Value, Asset and Liability Measurement Inputs, Disclosure Items [Axis]	Assets and liabilities measured at fair value by the level of the fair value hierarchy within which the inputs are categorized.	820-10-50-1 820-10-50-2 825-10-50-10(d)
Fair Value, Asset and Liability Measurement Inputs, Disclosure Items [Domain]	Provides the general information items required to be disclosed with respect to assets and liabilities, including [financial] instruments that are classified in shareholders' equity, that are measured at fair value.	820-10-50-1 820-10-50-2 825-10-50-10(d)
Estimate of Fair Value, Fair Value Disclosure [Member]*	This element represents the fair value of financial instruments (as defined), including financial assets and financial liabilities (collectively, as defined) for which it is practicable to estimate such value.	820-10-50-2(a) 820-10-50-5(a) 825-10-50-10(a)
Fair Value, Inputs, Level 1 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' <u>shareholders'</u> equity, which are measured at fair value on either a recurring or nonrecurring basis and fall <u>are categorized</u> within Level 1 of the fair value measurements hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.	820-10-50-2 (b)(1) 820-10-50-5(b)(1)
Fair Value, Inputs, Level 2 [Member]*	This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders' <u>shareholders'</u> equity, which are measured at fair value on either a recurring or nonrecurring basis and fall <u>are categorized</u> within	820-10-50-2 (b)(2) 820-10-20 > Level 2 Inputs

Standard Label [†]	Definition	Codification Reference
	<p>Level 2 of the fair value measurements-hierarchy. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market); (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).</p>	
<p>Fair Value, Inputs, Level 3 [Member]*</p>	<p>This item represents the amount of assets or liabilities, including [financial] instruments that are classified in stockholders'<u>shareholders'</u> equity, which are measured at fair value on either a recurring or nonrecurring basis and fall <u>are categorized</u> within Level 3 of the fair value measurements-hierarchy. Level 3 inputs are unobservable inputs for the</p>	<p>820-10-50-2(b)(3) 820-10-50-5(b)(3) 820-10-35-53</p>

Standard Label [†]	Definition	Codification Reference
	asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available; such as, when there is little, if any, market activity for the asset or liability at the measurement date.	
Fair Value, Asset and Liability Measurement Inputs [Line Items]	These line items represent assets and liabilities, including [financial] instruments that are classified in shareholders' equity, which are measured at fair value.	820-10-50-1 820-10-50-2
Fair Value, Assets and Liabilities, Unobservable Input Reconciliation [Abstract]		
Fair Value, Assets and Liabilities, Unobservable Input Reconciliation [Text Block]	This element represents, for fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following: (1) total gains or losses for the period recognized in earnings (or changes in net assets) and a description of where they are presented in the statement of income (or activities); (1a) total gains or losses for the period recognized in other comprehensive income; (2) purchases, sales, issues, and settlements (each of those types of changes disclosed separately); and (3) the amounts of any transfers into or out of Level 3, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized.	820-10-50-2(c) 820-10-50-3 820-10-50-2B

Standard Label[†]	Definition	Codification Reference
Fair Value, Assets and Liabilities, Unobservable Input Reconciliation [Table]	Summarization of information required to be provided for purposes of reconciling opening and closing balances of fair value measurements of assets categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Assets and Liabilities, Unobservable Input Reconciliation by Asset or Liability Type [Axis]	Represents the reconciliation of changes in assets and liabilities categorized within Level 3 of the fair value hierarchy by asset or liability type.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Unobservable Input Reconciliation, Asset and Liability Types [Domain]	This element provides general categories of assets and liabilities categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Assets and Liabilities, Unobservable Input Reconciliation [Line Items]	These line items represent the reconciling items for assets and liabilities categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Gain (Loss) Included in Earnings, Description	This element represents a description of where the gains or losses for the period included in earnings and other comprehensive income arising from assets measured at fair value and categorized within Level 3 of the fair value hierarchy are included in the financial statements.	820-10-50-2(d)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Gain (Loss) Included in Earnings, Description	This element represents a description of where the gains or losses for the period included in net income and other comprehensive income arising from liabilities measured at fair value using unobservable inputs (Level 3) are included in the financial statements.	820-10-50-2(d)

Standard Label [†]	Definition	Codification Reference
Fair Value, Assets, Unobservable Input Reconciliation [Roll Forward] <i>FairValueAssets Unobservable InputsReconciliationCalculation Rollforward</i>	A roll forward is a reconciliation of a concept from the beginning of a period to the end of a period.	820-10-50-2(d)
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Asset Value*	This element represents an asset measured at fair value using significant unobservable inputs (Level 3) and categorized within Level 3 of the fair value hierarchy, which is required for reconciliation purposes of beginning opening and ending closing balances.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Gain (Loss) Included in Earnings	This element represents total gains or losses for the period recognized in earnings arising from assets measured at fair value and categorized within Level 3 of the fair value hierarchy that are included in earnings or resulted in a change in net asset value.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Gain (Loss) Included in Other Comprehensive Income	This element represents total gains or losses for the period recognized in other comprehensive income, arising from assets measured at fair value and categorized within Level 3 of the fair value hierarchy that are included in earnings or result in a change in net asset value.	820-10-50-2(c) 820-10-50-3 820-10-50-2B

Standard Label[†]	Definition	Codification Reference
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Purchases, Sales, Issues, Settlements	This element represents purchases, sales, issues, and settlements (each of those types of changes disclosed separately) that have taken place during the period in relation to assets measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Purchases	This element represents purchases that have taken place during the period in relation to assets measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Sales	This element represents sales that have taken place during the period in relation to assets measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Issues	This element represents issues that have taken place during the period in relation to assets measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Settlements	This element represents settlements that have taken place during the period in relation to assets measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Transfers Into Level 3	This element represents transfers into assets measured at fair value and categorized within Level 3 of the fair value hierarchy that have taken place during the period.	820-10-50-2(c) 820-10-50-3 820-10-50-2B

Standard Label [†]	Definition	Codification Reference
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Transfers Out of Level 3	This element represents transfers out of assets measured at fair value and categorized within Level 3 of the fair value hierarchy that have taken place during the period.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Asset, Period Increase (Decrease)	This element represents the net change of assets measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Liability, Unobservable Input Reconciliation [Roll Forward] <i>Fair Value Liability Unobservable Inputs Reconciliation Calculation Roll forward</i>	A roll forward is a reconciliation of a concept from the beginning of a period to the end of a period.	
Fair Value, Measurement with Unobservable Inputs Reconciliation, Recurring Basis, Liability Value*	This element represents a liability measured at fair value using significant unobservable inputs (Level 3) which and categorized within Level 3 of the fair value hierarchy that is required for reconciliation purposes of beginning opening and ending closing balances.	820-10-50-2(c) <u>820-10-50-3</u> <u>820-10-50-2B</u>
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Gain (Loss) Included in Earnings	This element represents total gains or losses for the period recognized in earnings arising from liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy that are included in earnings or resulted in a change in net asset value.	820-10-50-2(c) 820-10-50-3 820-10-50-2B

Standard Label[†]	Definition	Codification Reference
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Gain (Loss) Included in Other Comprehensive Income	This element represents total gains or losses for the period recognized in other comprehensive income arising from liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy that are included in earnings or resulted in a change in net asset value.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Purchases, Sales, Issues, Settlements	This element represents purchases, sales, issues, and settlements (each of those types of changes disclosed separately) that have taken place during the period in relation to liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Purchases	This element represents purchases that have taken place during the period in relation to liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Sales	This element represents sales that have taken place during the period in relation to liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Issues	This element represents issues that have taken place during the period in relation to liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Settlements	This element represents settlements that have taken place during the period in relation to liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B

Standard Label[†]	Definition	Codification Reference
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Transfers Into Level 3	This element represents transfers into liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy that have taken place during the period.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Transfers, Out of Level 3	This element represents transfers out of liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy that have taken place during the period.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Measurement with Unobservable Inputs Reconciliation, Liability, Period Increase (Decrease)	This element represents the net change of liabilities measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Level 3 Transfers In, Description	Represents disclosures concerning the reasons for transfers into Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Level 3 Transfers Out, Description	Represents disclosures concerning the reasons for transfers out of Level 3 of the fair value hierarchy.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Transfer Policy	Represents disclosures concerning the reporting entity's policy for determining when transfers between levels are recognized.	820-10-50-2(c) 820-10-50-3 820-10-50-2B
Fair Value, Highest and Best Use	Represents the disclosure of the reason why an asset is currently being used in a manner that differs from its highest and best use.	820-10-50-2E
Fair Value, Transfer from Level 1 to Level 2, Asset	Represents the amount of assets transferred out of Level 1 of the fair value hierarchy into Level 2.	820-10-50-2(bbb) 820-10-50-2B

Standard Label[†]	Definition	Codification Reference
Fair Value, Transfer from Level 1 to Level 2, Liability	Represents the amount of liabilities transferred out of Level 1 of the fair value hierarchy into Level 2.	820-10-50-2(bbb) 820-10-50-2B
Fair Value, Level 1 to Level 2 Transfers, Description	Represents a discussion of the transfers of assets or liabilities out of Level 1 of the fair value hierarchy into Level 2.	820-10-50-2(bbb) 820-10-50-2B
Fair Value, Transfer from Level 2 to Level 1, Asset	Represents the amount of assets transferred out of Level 2 of the fair value hierarchy into Level 1.	820-10-50-2(bbb) 820-10-50-2B
Fair Value, Transfer from Level 2 to Level 1, Liability	Represents the amount of liabilities transferred out of the Level 2 of the fair value hierarchy into Level 1.	820-10-50-2(bbb) 820-10-50-2B
Fair Value, Level 2 to Level 1 Transfers, Description	Represents a discussion of the transfers of assets or liabilities out of Level 2 of the fair value hierarchy into Level 1.	820-10-50-2(bbb) 820-10-50-2B
Fair Value, Measurement Uncertainty Analysis [Table]	Schedule detailing the change to the estimate of fair value by changing one or more of the unobservable inputs (Level 3). This table provides an uncertainty measurement analysis for fair value measurements that are categorized within Level 3 of the fair value hierarchy.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Measurement Uncertainty Analysis [Axis]	Represents changes in fair value measurements for assets and liabilities because of a change in one or more unobservable inputs used to measure the assets and liabilities by type of asset or liability.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Measurement Uncertainty Analysis, Fair Value	Represents the fair value at the reporting date of the asset or liability measured at fair value and categorized within Level 3 of the fair value hierarchy.	820-10-50-2(f) 820-10-20-2B 820-10-55-7

Standard Label[†]	Definition	Codification Reference
Fair Value, Measurement Uncertainty Analysis, Increase in Fair Value	Represents the increase in the fair value measurement of an asset or liability because of a change in one or more unobservable inputs used to measure the asset or liability.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Measurement Uncertainty Analysis, Decrease in Fair Value	Represents the decrease in the fair value measurement of an asset or liability because of a change in one or more unobservable inputs used to measure the asset or liability.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Measurement Uncertainty Analysis, Percent Increase in Fair Value	Represents the percent increase in the fair value measurement of an asset or liability because of a change in one or more unobservable inputs used to measure the asset or liability.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Measurement Uncertainty Analysis, Percent Decrease in Fair Value	Represents the percent decrease in the fair value measurement of an asset or liability because of a change in one or more unobservable inputs used to measure the asset or liability.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Measurement Uncertainty Analysis, Significant Input Description	Description of one or more significant inputs that have been modified in this uncertainty analysis. This element also describes how the input or inputs have been modified in order to come up with the increases and decreases in fair value based on those inputs.	820-10-50-2(f) 820-10-20-2B 820-10-55-7
Fair Value, Assets and Liabilities, Valuation Techniques [Table]	Summarization of the combined disclosure of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, applied during the period, by each separate class of assets and liabilities.	820-10-50-2(bbb)

Standard Label[†]	Definition	Codification Reference
Fair Value, Valuation Techniques by Asset Type [Axis]	Disclosure of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, applied during the period, by each separate class of assets.	820-10-50-2(bbb)
Fair Value, Valuation Techniques by Asset Type [Domain]	Separate classes of assets for which the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, applied during the period are disclosed.	820-10-50-2(bbb)
Fair Value, Valuation Techniques by Liability Type [Axis]	Disclosure of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, applied during the period, by each separate class of liabilities.	820-10-50-2(bbb)
Fair Value, Valuation Techniques by Liability Type [Domain]	Separate classes of liabilities for which the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, applied during the period are disclosed.	820-10-50-2(bbb)
Fair Value, Assets and Liabilities, Valuation Techniques [Line Items]	Line items represent financial concepts included in a table. These concepts are used to disclose reportable information associated with domain members defined in one or many axes to the table.	820-10-50-2(bbb)

Standard Label [†]	Definition	Codification Reference
Fair Value, Assets and Liabilities, Valuation Techniques	Description of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, applied during the period.	820-10-50-2(bbb)
Fair Value, Assets Measured on Recurring Basis, Financial Statement Captions [Line Items]*		
Fair Value, Assets and Liabilities Measured on Recurring Basis, Unobservable Input Reconciliation [Abstract]*		
Fair Value, Assets and Liabilities Measured on Nonrecurring Basis [Abstract]*		
Fair Value, Measurement Inputs, Disclosure [Text Block]*		
Available-for-sale Securities, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)

Standard Label [†]	Definition	Codification Reference
Business Combination, Contingent Consideration Arrangements, Change in Range of Outcomes, Contingent Consideration, Liability, Significant Inputs*	This item represents the significant inputs, including any assumptions, used by management to estimate the range of outcomes for a contingent liability assumed in a business combination for which a change in the range of outcomes has been recognized during the reporting period.	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 805-10-50-4(a)(3)
Business Combination, Contingent Consideration Arrangements, Change in Range of Outcomes, Contingent Consideration, Liability, Valuation Technique*	This item represents management's methodology (for example, procedures or techniques) for estimating the range of outcomes for a liability assumed in a business combination arising from an item of contingent consideration for which a change in the range of outcomes has been recognized during the reporting period.	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 805-10-50-4(a)(3)
Convertible Debt, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Fair Value Disclosures [Text Block]*	This item represents the complete disclosure regarding the fair value of financial instruments (as defined), including financial assets and financial liabilities (collectively, as defined), and the measurements of those instruments, assets, and liabilities. Such disclosures about the financial instruments, assets, and liabilities would include: (1) the fair value of the required items together	820-10-50-2 820-10-50-5 825-10-50-10 825-10-50-16 825-10-50-21 825-10-50-28 825-10-50-30

Standard Label [†]	Definition	Codification Reference
	<p>with their carrying amounts (as appropriate); (2) for items for which it is not practicable to estimate fair value, disclosure would include: (a) information pertinent to estimating fair value (including, carrying amount, effective interest rate, and maturity and (b) the reasons why it is not practicable to estimate fair value; (3) significant concentrations of credit risk including such as: (a) information about the activity, region, or economic characteristics identifying a concentration, (b) the maximum amount of loss the Company is exposed to based on the gross fair value of the related item, (c) policy for requiring collateral or other security and information as to on accessing such collateral or security, and (d) the nature and brief description of such collateral or security; (4) quantitative information about market risks and how such risk is managed; (5) for items measured on both a recurring and nonrecurring basis, information regarding the inputs used to develop the fair value measurement; and (6) for items presented in the financial statement for which fair value measurement is elected: (a) information necessary to understand the reasons for the election, (b) discussion of the effect of fair value changes on earnings, (c) a description of [similar groups] items for which the election is made and the relation thereof to the balance sheet, the aggregate carrying value of items included in the balance sheet that are not eligible for the election; and (7) all other required (as defined) and desired information.</p>	

Standard Label [†]	Definition	Codification Reference
Foreign Currency Contract, Asset, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Held-to-maturity Securities, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Liabilities Related to Investment Contracts, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Lines of Credit, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Loans Payable, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)

Standard Label [†]	Definition	Codification Reference
Notes Payable, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Other Assets, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Receivables, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)
Trading Securities, Fair Value Disclosure, Methodology*	This item represents management's methodology (for example, procedures or techniques) for estimating the fair value as of the balance sheet date of the financial instrument (as defined), including financial assets and financial liabilities (collectively, as defined).	820-10-50-2(e) <u>820-10-50-2(bbb)</u> 825-10-50-10(b)