The Corporate Reporting Users' Forum

Tony Cope
International Accounting Standards Board
30 Cannon Street
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Dear Tony

User views on Fair Value

You expressed an interest in our views as users of financial statements on the use of fair value in financial reporting. In essence, we do not support the proposition that market based exit prices are the most appropriate measure of fair value for all assets and liabilities to be reported in financial statements. A mixed attribute measurement model, with transactional (current entry price) values for most operational items, would be more useful and the IASB definition of fair value would be better renamed "Current Exit Price" to avoid confusing users.

We would thus only endorse SFAS 157 on the specific basis that it clarifies the measurement of current exit values and would not support a move to current exit values being used in all situations. Before FAS 157 methodology is applied to a specific measure of current value in an existing standard, there should be a review of that standard to see whether fair value / current exit value is appropriate or whether an alternative measurement basis such as current entry value should be applied.

Examples of where current entry value would be more appropriate than fair value are: the reference to the (undefined) term 'fair value' in the leasing standard and for the initial recognition of most operating assets, which in practice generally means historical cost. Fair value (current exit value) at initial recognition may be appropriate in many financial services businesses (e.g. structured products) but should not be applied to, say, inventories and fixed assets.

However, we would like to see the wider issue of measurement resolved and note that there is nothing on the timetable to indicate that this is planned. If the IASB does not alter older standards, auditors will be forced to require companies to use the SFAS 157 methodology in every situation where "fair values" are required, which we would not support.

The conceptual framework project should look to define, for example, current entry value, historical cost and value in use and specify when each measurement basis should be used. Any standard defining exit value, if issued before measurement is resolved in the conceptual framework project (and arguably resources should be diverted to deal with this first so that this does not happen), should explicitly specify which of the current value / fair value measures in existing standards are actually covered, which are not, why, and what else is known that may affect these in the future.

Yours sincerely

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