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28 September 2009

Submitted electronically through the IASB Internet site (www.iasb.org)

Exposure Draft ED/2009/05 - Fair Value Measurement

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2009/05 *Fair Value Measurement* (the ED). We have considered the ED and set out our comments below and in the Appendix to this letter.

Support for the project

We support the Board's objectives for this project to:

- establish a single source of guidance for fair value measurements in IFRSs;
- clarify the definition and related guidance
- enhance disclosures about fair value.

We agree with the proposed definition of fair value and with much of the supporting guidance. However, we do have certain concerns with the application of the proposed definition and with some aspects of the detailed guidance. Our main concerns are summarised in the following paragraphs.

Application of proposed definition

Non-financial items

The proposed model is of course intended to apply to all fair value measurements, including both financial and non-financial assets and liabilities. For financial assets we find the guidance mostly clear, appropriate and consistent with existing practice.

The guidance on non-financial assets would, if introduced into IFRS, represent a more significant change to existing guidance in the applicable standards. Our valuation specialists advise that the proposed guidance is operational (capable of being applied if necessary) and, in many respects, consistent with existing valuation practices. Moreover, in a US context SFAS 157's equivalent guidance is not to our knowledge regarded as controversial.

Nonetheless, we believe that some aspects of this guidance are unduly complex and potentially onerous. We comment on some of the specific areas of concern in the following paragraphs and in our responses to the Invitation to Comment. We believe these complexities stem from applying a market-based, transfer valuation model for assets that:

- may rarely, if ever in some cases, be bought and sold in stand-alone transactions
- derive their value from being used in conjunction with other assets and liabilities
- may have more than one commercial use.

We recognise that the Board has attempted to address these matters, for example by including an 'in-use valuation premise'. Unfortunately, we believe that it is these same efforts that have served to add complexity and reduce clarity.

We also appreciate that this project is intended to clarify and unify the concept of fair value rather than determine when fair value should be used. However, we believe that the ED serves to illustrate the difficulties of seeking to apply a single model to such a diverse range of assets (and, to a lesser extent, liabilities).

Accordingly, we believe that the Board should in due course revisit the question of whether 'fair value' is the most appropriate measurement basis for most non-financial assets.

Liabilities

As explained in our response to the Board's Discussion Paper *Credit Risk in Liability Measurement*, we have significant doubts as to the usefulness of measuring most liabilities in a way that leads to gains or losses as a result of changes in the obligor's own credit standing.

We note that the ED's proposals will result in the fair value of most liabilities being affected by non-performance risk. We accept that this outcome is consistent with a hypothetical transfer notion of fair value. However, we also note that the effect of non-performance risk on a hypothetical transfer price depends ultimately on the assumed characteristics of the hypothetical transaction.

The Board's proposals to replace IAS 39's classification and measurement model will lead to more financial liabilities being measured at fair value. This will exacerbate the own credit issue. Should the Board finally conclude that non-performance risk is part of a liability's fair value measurement, the question of when to fair value liabilities (especially in subsequent measurement) will become even more pressing.

Guidance

We have several detailed comments on the proposed guidance in our responses to the Invitation to Comment questions. The majority of these comments relate to guidance applicable to non-financial assets, and therefore expand on the general concerns expressed above. Our concerns relate mainly to the proposals on highest and best use, the in-use valuation premise and to the evident need to consider the value of combinations of assets to determine the fair value of individual assets.

Despite our detailed comments and concerns, we support the broad thrust of the proposals. These seem to be driving at:

- estimating fair value using a 'best price' concept
- avoiding use of a scrap value by making assumptions about the availability of complementary assets where applicable.

We believe that these are sensible and relatively simple concepts. However, we also believe the ED over-complicates and over-emphasises these concepts. Taken together, the draft guidance seems to require entities not only to identify the most advantageous market but also to consider:

- whether that market is a market for the asset itself, or for an asset group or business that includes the asset in concern
- alternative uses by participants in that market (which could in turn affect the identity of the most advantageous market)
- alternative combinations of assets to identify the best price on a combined basis (which could again affect the identity of the most advantageous market).

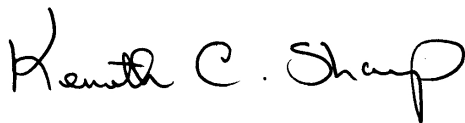
We suggest that the Board needs to rationalize and simplify this guidance. Broadly, we suggest that this can be achieved by including the main concepts within the overall 'most advantageous market' material in the main body of the (draft) IFRS. Additional material should be relegated to the Application Guidance section.

In doing this, we believe that the various matters to be considered to identify the 'best price' (alternative uses, combinations of assets) should be required only if it is evident that these factors will affect the best price.

Our responses to the questions in the ED's Invitation to Comment are set out in the Appendix.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,



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Invitation to comment questions

Definition of fair value and related guidance

Question 1

The exposure draft proposes defining fair value 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’ (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.

Is this definition appropriate? Why or why not? If not, what would be a better definition and why?

We agree with the proposed definition. Compared with the existing definition it clarifies that:

- fair value is exit value based on sale of an asset or transfer of a liability
- the hypothetical exit transaction is an orderly transaction
- the hypothetical exit transaction takes place at the measurement date.

Scope

Question 2

In three contexts, IFRSs use the term ‘fair value’ in a way that does not reflect the Board’s intended measurement objective in those contexts:

- (a) In two of those contexts, the exposure draft proposes to replace the term ‘fair value’ (the measurement of share-based payment transactions in IFRS 2 *Share-based Payment* and reacquired rights in IFRS 3 *Business Combinations*) (see paragraph BC29 of the Basis for Conclusions).
- (b) The third context is the requirement in paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement* that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term ‘fair value’, but instead proposes to exclude that requirement from the scope of the IFRS.

Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

We agree. In each of the three contexts cited the required measurement might be described as ‘fair value’ based but not strictly fair value.

The transaction

Question 3

The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

We agree with the concept of considering the most advantageous market. We also welcome the practical expediency of:

- Not requiring entities to perform an exhaustive search of all possible markets to identify the most advantageous market (paragraph 10).
- Assuming that the principal market is the most advantageous in the absence of evidence to the contrary (paragraph 11).

We do however question whether paragraphs 10 and 11 are entirely consistent in their presumptions as to the most advantageous market. Paragraph 10 includes a presumption that this is the entity's *normal* market, whereas paragraph 11 permits an assumption that this is the *principal* market. Moreover, we believe that the concept of most advantageous market would be improved by some further development in the following areas:

- The text in paragraph 8 and elsewhere suggests that there is invariably a real market in the asset or liability in concern. We do not think there is always a market, at least at the level of an individual asset or liability. For example, we believe that there is no market in many liabilities, or in many intangible assets acquired in business combinations. We think this section of the ED needs to acknowledge that in such cases the reference market is a hypothetical market (with hypothetical participants). (Although we dislike the idea of introducing hypotheses into accounting measurements, this seems to be an unavoidable consequence of using a market-based transfer measurement model for assets and liabilities that are not regularly transferred. The underlying problem is therefore the use of fair value in such circumstances rather than its definition).
- Similarly, we question the appropriateness of the *most advantageous market* concept in situations in which there is no actual market. If a transaction does not or cannot take place, this requirement involves determining a hypothetical most advantageous market. This seems unduly theoretical and possibly impractical.
- Other material in the ED (paragraph 23 footnote and Example 1 of the Implementation Examples) introduces guidance suggesting that the relevant market can be a market for an asset group or business rather than a market in the individual asset in concern. If so this idea needs to be incorporated into, and aligned with, the requirements concept of most advantageous market.
- The most advantageous market concept is really a 'best price' concept. As such we believe that much of the draft guidance on 'highest and best use' and 'valuation premise' should be subsumed into the guidance on transaction and market participants currently included in paragraphs 7 to 14. We expand on this suggestion in our responses to Questions 5 and 6.

Question 4

The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions). Is the description of market participants adequately described in the context of the definition? Why or why not?

We agree with the description of market participants subject to clarification on the points raised in our response to Question 3 (concerning the absence of a market for certain individual assets or liabilities).

Application to assets: highest and best use and valuation premise

Question 5

The exposure draft proposes that:

- (a) the fair value of an asset should consider a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions).
- (b) the highest and best use of an asset establishes the valuation premise, which may be either 'in use' or 'in exchange' (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions).
- (c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

Highest and best use

We support the basic idea of considering an asset's highest and best use in measuring fair value. We also agree with the practical expedient in paragraph 18 to the effect that an exhaustive search for higher and better uses is not required in the absence of evidence.

However, we also question why this guidance is necessary in view of the requirement to consider the *most advantageous market*. If participants in the most advantageous market can derive additional value from an alternative use then this would presumably be reflected in the price in that market. While we agree that an IFRS should acknowledge that possible alternative uses should be considered in identifying the most advantageous market and its participants, we believe the ED over-emphasises the highest and best use notion. We also believe possible alternative uses will affect fair values only in a small minority of cases.

We therefore suggest that:

- A requirement to consider possible alternative uses could be incorporated into the material on the most advantageous market and the price in that market currently in paragraphs 8 to 16.
- The more detailed material on applying this requirement could be relegated to the Application Guidance.

Valuation premise

We agree with the inclusion of the guidance in paragraph 22(a) under the heading 'valuation premise'. We also agree that this should apply only to non-financial assets. Without this guidance the proposed definition of fair value and other unit of account guidance would presumably result in the use of scrap value for assets such as specialist plant and work-in-progress. Scrap value would not in our view be an appropriate measure. We believe that the in-use valuation premise is essentially a pragmatic means of avoiding this outcome.

However, we also believe the terminology is confusing and that the guidance is unduly cumbersome. The terminology is confusing because the hypothetical transaction is always an exchange transaction regardless of the valuation premise. What differs depending on circumstances are the assumptions about the transaction.

The substance of this guidance is primarily that assets whose value is dependent on the availability of complementary assets should be valued on the presumption that those

complementary assets are available to market participants. (It is worth noting that this will not always reflect reality). We would prefer to see this stated concisely in the main body of the Standard without using the proposed valuation premise terminology. We would also prefer the definition of the in-use valuation premise to refer to what this premise involves in practice; the definition in Appendix A merely states the types of asset to which it applies.

The guidance also includes a requirement to assess highest and best use 'on the basis of the use of the asset together with other assets and liabilities as a group' (footnote to paragraph 23 and also IE Example 1). This is not quite the same as assuming that market participants have access to complementary assets and liabilities. Rather, it is introducing a requirement to consider how alternative groupings of assets and liabilities will affect the combined value. We do not necessarily disagree with the thrust of this but:

- We are unsure as to whether this is intended to be the same thing as assuming that market participants have access to complementary assets and liabilities (noting that it seems to be an additional consideration).
- We think the guidance raises questions as to what the unit of valuation really is. Although the ED purports to require an assumption of individual sale (see paragraph 23), the reality of applying this guidance is that a combined value is determined. Presumably an allocation of the combined value to individual assets is then required (which is also implied in paragraph B2(e) of the Application Guidance).
- We are concerned at the practicality of a requirement to consider alternative combinations of assets (and liabilities) to determine highest and best use. We suggest that some expedience is required if this guidance is to be retained, along the lines that combinations of assets are considered only when it is evident that total value would be increased by a sale of the asset group.

We suggest that the complexity and potential confusion in this area stems from the Board's efforts to accommodate current valuation practice within a market-based, hypothetical transfer fair value model. This in turn raises a question as to whether this fair value model is appropriate for non-financial assets, especially those: (i) whose value is dependent on the availability of complementary assets and liabilities; (ii) for which there is no market on an individual basis); (iii) which are held for use rather than sale.

Application of highest and best use guidance to financial assets and to liabilities

We agree with the ED's proposals to the effect that this guidance is not applicable to financial assets or to liabilities.

Question 6

When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions). Is the proposed guidance sufficient and appropriate? If not, why?

We agree with paragraphs 17 to 19. We are concerned that paragraphs 20 and 21 lead to a curious mixture of measurements of (in this case) the land and factory building - see our comments below on Example 2 of the Implementation Examples.

Application to liabilities: general principles

Question 7

The exposure draft proposes that:

- (a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions).
- (b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions).
- (c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS).

Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

We believe these requirements are appropriate.

Application to liabilities: non-performance risk and restrictions

Question 8

The exposure draft proposes that:

- (a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).
- (b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

Non-performance risk

We believe in principle that non-performance risk should affect a liability's fair value to the extent that this risk changes the price that the obligor would need to pay to transfer the liability to market participants at the measurement date. The difficulty with putting this principle into practice is that most liabilities are rarely, if ever, transferred (at least on a standalone basis). Accordingly, there are usually no markets for the liability in concern and accordingly no market participants. There are also no observable prices against which to calibrate estimated fair values.

Fair valuing a liability is therefore a largely hypothetical exercise. As such, the fair value determined depends on the assumptions that underlie the hypothesis. Paragraph 29 of the ED proposes a rule to the effect that non-performance risk is assumed to be the same both before and after the hypothetical transfer. In effect, this treats the obligor's non-performance risk as an integral component of the liability. This rule is consistent with SFAS 157 and serves to clarify the role of non-performance risk. For these reasons, the majority of commentators within our organization support this approach in the context of a standard on how to determine fair value.

The paragraph 29 rule is nonetheless simply an assumption as to the manner in which a hypothetical transaction takes place. It is not evident to us that the assumption is consistent with 'real world' economic phenomena. Accordingly, other alternative assumptions could be built into the fair value hypothesis. For example, it could be assumed that the (hypothetical) transferees are entities of high credit standing that would expect to meet the assumed obligation. Such an approach would focus more on the obligation rather than the specific obligor's ability to meet the obligation.

A further possibility would be to adjust fair values to reflect changes in own credit risk only in specified circumstances such as when the obligor has a demonstrable ability to transfer or extinguish the liability at the measurement date.

In order to conclude on the most appropriate approach, we suggest that it would be helpful for the Board to describe the characteristics of the hypothetical transactions it has in mind in proposing its model. In doing so, the Board could explain how the hypothetical market participants (transferees) would take into account transferors' non-performance risk in deciding the price they will accept to assume the liability in question. For example: for some performance obligations it is possible to pay a third party contractor to undertake the work required to discharge the obligation. In such cases the price will be observable or could be estimated. It is not immediately clear that the price will be altered by the obligor's non-performance risk. By contrast, for a financial liability the counterparty asset holder should be by definition be willing to accept the fair value of the asset it holds. Accordingly, a hypothetical transferee that is assumed to be in a position to purchase that same asset from the counter-party (or settle the obligation with that party) should in turn be willing to accept the asset's fair value amount from the obligor plus some amount to cover costs and provide a profit margin.

We also look forward to the Board's conclusions as the decision-usefulness (or otherwise) of including the effects of nonperformance risk in the subsequent measurement of liabilities (in the context of the Discussion Paper *Credit Risk in Liability Measurement*). As explained in our comment letter on that Paper, we share the concerns of many constituents that reporting gains (or losses) as a result of changes in an entity's own credit standing is counter-intuitive. The Board's proposals to replace IAS 39's classification and measurement model will lead to more financial liabilities being measured at fair value. This will exacerbate the own credit issue.

We believe that a solution is needed to this problem. Should the Board finally conclude that non-performance risk is part of a liability's fair value measurement, the question of when to fair value liabilities (especially for subsequent measurement) will become even more pressing.

Restrictions

We agree that the fair value of a liability should not be adjusted for restrictions.

Fair value at initial recognition**Question 9**

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions).

Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

We agree that the transaction price is usually persuasive evidence of fair value at initial recognition. We also agree that the four situations listed in paragraph 36(a)-(d) are all valid examples of when the transaction price may not be indicative of fair value.

However, the second sentence of paragraph 36 says that the price transaction price *is the best evidence* of fair value other than in the four specified circumstances [emphasis added]. This seems to contradict the preceding sentence in paragraph 36, and the Board's comments in BC77. We suggest that the second sentence of this paragraph should be amended along the lines:

'The transaction price is likely to be persuasive evidence of fair value of an asset or liability at initial recognition unless:'

We agree with the approach to day 1 gains and losses, subject to clarification of one point. This concerns the amendments proposed to paragraph AG76 of IAS 39. As drafted, the revised AG76 would preclude recognition of a day 1 gain or loss even if the transaction price is not considered to provide relevant evidence of fair value (for example the price in a related party transaction or forced transaction). The effect is that the initial carrying value would be the transaction price even though it is not a 'fair value relevant' price. We are unsure as to whether this reflects the Board's intention. We believe that existing paragraph AG76 has been written in the context of a transaction price in a transaction that is itself relevant to a fair value measurement. We suggest that the proposed amendment might usefully clarify this point.

Valuation techniques**Question 10**

The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples). **Is this proposed guidance appropriate and sufficient? Why or why not?**

We agree with the proposed guidance on valuation techniques. We believe this is a useful summary of techniques that are commonly applied in practice. We believe the IVSC should have an important role to play in developing more detailed application guidance where necessary.

Disclosures

Question 11

The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

Although there may be a case for specifying some 'core' disclosures in a standard on fair value measurement, our general preference is to specify disclosures within each applicable standard. We believe that users may require different information in respect of different types of asset and liability.

On a more detailed point, we suggest that paragraph 60 should be clarified to the effect that it applies only to assets measured at fair value. As drafted, it could be taken to apply to any asset used with other assets in a manner that differs from highest and best use.

Convergence with US GAAP

Question 12

The exposure draft differs from Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157.

Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

We agree that the proposed differences are improvements over SFAS 157.

Question 13

Do you have any other comments on the proposals in the exposure draft?

Terminology

The Discussion Paper preceding this ED raised the question of whether a term such as 'current exit value' would be preferable to 'fair value'. In our response to that Paper we commented that it is preferable to use terms that more closely reflect the measurement objective, as this will tend to make Standards more understandable to preparers and financial statements more transparent. We continue to hold that view.

Transport costs and transaction costs

Paragraph 16 of the ED requires that the price in the most advantageous market:

- is not adjusted for transaction costs
- is adjusted for transport costs if 'location is a characteristic of the asset'.

While we do not disagree with the thrust of this requirement we suggest that the way it is expressed is likely to create confusion. In our view if location is a characteristic of an asset, an asset in a different location is not an identical asset. Accordingly, if the appropriate fair value measurement uses a price for an item in a different location as an input, transport costs are another input (similar adjustments for location and condition of inventory in the example of level 2 input in B3(f) of the ED).

Drafting comments

- *ED - paragraph 12:* the intent or meaning of 'considered from the perspective of a market participant that holds the asset or owes the liability' is not clear. The perspective should presumably be that of a market participant that might acquire the asset or liability not that of an existing holder or obligor.
- *ED - paragraph 14:* 'that distinguish' would be better termed 'relating to'.
- *ED - paragraph 17:* the phrase 'considering uses of the asset that are physically possible, legally permissible and financially feasible at the measurement date' would appear to exclude including the possibility of obtaining planning permission in the future, which would often affect the value of land.
- *ED - paragraph 36:* the intent of the words 'for example' at the start of the second sentence is not clear.
- *ED - paragraphs 42 and B3(h):* these paragraphs address the income and market approaches. We believe that income approaches are often better than market approaches. The way that paragraph 42 is written might provide ammunition to those who would argue that a market approach valuation is somehow a level 2 result, when in reality the observed multiple is normally a level 2 input to a level 3 result. Similarly, paragraph B3(h) will potentially be misconstrued to mean that a market multiple produces a level 2 result, when it produces a level 3 result.
- *ED - paragraphs 46 and 47:* the first sentence of paragraph 46 seems contradictory. What does having access to the market at the measurement date mean if the entity is unable to sell the asset in that market? We suggest the real issue is when a restriction is regarded as an integral part of the asset (and therefore taken into account in the measurement).

Comments on Illustrative Examples

- *Example 1 (IE2 - IE4):* we have a number of concerns with this Example:
 - It seems to establish a principle to effect that the most advantageous market might be a market in a business or asset group rather than a market in the individual asset to be valued. This view is not however supported by the text of the ED. Moreover, the Example's hypothetical transaction applied in order to value items acquired in a business combination is itself a business combination. This seems inconsistent with the requirement to value the assets and liabilities individually as required by paragraph 23 of the ED (although it is perhaps consistent with the footnote to paragraph 23)
 - This Example in turn begs the question as to which of the acquired items should be valued based on a hypothetical business combination, and which based on a transaction in the individual asset or liability.
 - We believe that this guidance, requiring the determination of two sets of values for each asset in an asset group, is burdensome and possibly impractical.
- *Example 2 (IE5 - IE8):* the outcome of the guidance in this Example is a curious mix of measurement bases. The factory is valued at an amount that reflects its existing use even though the highest and best use would be to demolish it. The land is valued on an alternative use basis, less the value of the factory based on existing use. It is not clear that this measure of the land's value should be described as fair value.
- *Example 3 (IE9)* should the second line of (b) refer to 'in-exchange' rather than 'in-use'?