
OCTOBER 21, 2005 WORKING DRAFT

Financial Accounting Series

Statement of
Financial Accounting
Standards No. 15X

Fair Value Measurements



Financial Accounting Standards Board
of the Financial Accounting Foundation

Summary

This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and enhances disclosures about fair value measurements. This Statement applies broadly under other accounting pronouncements that require fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements.

Reason for Issuing This Statement

Prior to this Statement, there were different definitions of fair value and limited guidance for applying those definitions within GAAP. Moreover, that guidance was dispersed among the many pronouncements that require fair value measurements. Differences in that guidance created inconsistencies that added to the complexity in GAAP. The Board decided to address those issues in this Statement. In developing this Statement, the Board considered the need for increased consistency and comparability in estimates of fair value and enhanced disclosures about the estimates.

Differences between This Statement and Current Practice

The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to estimate fair value, and the requirement for expanded disclosures about estimates of fair value.

This Statement clarifies that fair value is the price that would be received for an asset or paid to transfer a liability in a current transaction between marketplace participants in the reference market for the asset or liability. In the absence of a transaction involving the entity, the estimate of fair value is determined by reference to a hypothetical transaction for the asset or liability at the measurement date (the effective valuation date).

For a liability, the estimate of fair value should reflect the price that would be paid in a current transaction between marketplace participants of comparable credit standing. Therefore, an entity should consider the effect of changes in its credit standing on the creditworthiness of the liability in all periods in which the liability is remeasured at fair value under other accounting pronouncements, including FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

This Statement affirms the Board's decision in other FASB Statements that the fair value of a large position of an unrestricted security with a quoted price in an active market (block) should be estimated as the product of the quoted price times the quantity held, thereby precluding the use of a blockage factor. This Statement extends that guidance to broker-dealers and investment companies within the scope of the AICPA Audit and Accounting Guides for those industries.

This Statement defines a restricted security as a security for which sale is legally restricted by governmental or contractual requirement for a specified period, whether the restriction limits sale (for example, to qualifying investors) or prohibits sale. This Statement establishes the general principle that the fair value of a restricted security should be estimated based on the quoted price for an otherwise identical unrestricted security of the same issuer, adjusted as appropriate for the effect of the restriction. That general principle applies even if the restriction terminates within one year, as is the case for restricted stock measured at fair value under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

This Statement expands disclosures about the use of fair value to remeasure assets and liabilities recognized in the statement of financial position. The disclosures focus on the inputs used to develop estimates of fair value and the effects of the estimates on income (or changes in net assets) for the period. This Statement encourages entities to combine the fair value information disclosed under this Statement with the fair value information disclosed under other accounting pronouncements, including FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, where practicable.

How the Changes in This Statement Improve Financial Reporting

A single definition of fair value, together with a framework for measuring fair value, should result in increased consistency and comparability in estimates of fair value.

The expanded disclosures about the use of fair value to remeasure assets and liabilities should improve the quality of information provided to users of financial statements.

The amendments made by this Statement advance the Board's initiatives to simplify and codify the accounting literature, eliminating differences that have added to the complexity in GAAP.

How the Conclusions in This Statement Relate to the FASB's Conceptual Framework

The fair value framework considers the concepts in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, which emphasizes that providing comparable information enables users of financial statements to identify similarities in and differences between two sets of economic events.

The definition of fair value considers the concepts relating to assets and liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which defines assets in terms of future economic benefits (future inflows) and liabilities in terms of future sacrifices of economic benefits (future outflows).

The guidance for applying the definition of fair value incorporates the related concepts in FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. In particular, Concepts Statement 7 establishes that the most relevant measure of a liability always reflects the credit standing of the entity obligated to pay. In addition, this Statement incorporates and clarifies the guidance in Concepts Statement 7 for using present value techniques to estimate fair value. The clarifications do not change the substantive guidance in Concepts Statement 7 or the application of that guidance under existing accounting pronouncements. Therefore, this Statement does not revise Concepts Statement 7. The Board expects to consider the need to revise Concepts Statement 7 in its conceptual framework project.

The expanded disclosures consider the need to provide information about the use of fair value to remeasure assets and liabilities that is useful to users of financial statements (present and potential investors, creditors, and others in making rational investment, credit, and similar decisions)—the first objective of financial reporting in FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*.

Costs and Benefits of Applying This Statement

Although the guidance in this Statement builds on current practice and requirements, some entities will need to make changes to comply with the requirements of this Statement, thereby incurring one-time costs. However, the benefits from increased consistency and comparability in estimates of fair value and expanded disclosures about those estimates should be ongoing.

The Effective Date of This Statement

This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, except as follows. The disclosure requirements of this Statement are effective for financial statements issued for fiscal years ending after December 15, 2006. Earlier application is encouraged. The provisions of this Statement are to be applied prospectively (similar to a change in accounting estimate), except as follows. The change in method for estimating the fair value of a block is to be applied retrospectively to all prior periods (similar to a change in accounting principle).

Statement of Financial Accounting Standards No. 15X

Fair Value Measurements

October 21, 2005 Working Draft

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Statement of Financial Accounting Standards No. 15X

Fair Value Measurements

October 21, 2005 Working Draft

OBJECTIVE

1. This Statement defines fair value, establishes a framework for measuring fair value under accounting pronouncements that require fair value measurements, and enhances disclosures about fair value measurements. Where applicable, this Statement simplifies and codifies related guidance within generally accepted accounting principles (GAAP).

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

2. This Statement applies under accounting pronouncements that require fair value measurements, except as follows:
- a. This Statement does not apply under accounting pronouncements that address share-based payment transactions: FASB Statement No. 123 (revised 2004), *Share-Based Payment*, and its related interpretive pronouncements and FASB Technical Bulletin No. 97-1, *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*.
 - b. This Statement does not eliminate the practicability exceptions to fair value measurements in accounting pronouncements within the scope of this Statement.¹

¹Accounting pronouncements that permit practicability exceptions to fair value measurements in specified circumstances include APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, No. 107, *Disclosures about Fair Value of Financial Instruments*, No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and No. 153, *Exchanges of Nonmonetary Assets*, and FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. Also included among those pronouncements are EITF Issues No. 85-40, "Comprehensive Review of Sales of Marketable Securities with Put Arrangements," and No. 99-17, "Accounting for Advertising Barter Transactions."

3. This Statement does not apply under accounting pronouncements that require measurements that are similar to fair value but that are not intended to measure fair value, including the following:

- a. Accounting pronouncements that address revenue transactions measured using vendor-specific objective evidence (VSOE) of fair value²
- b. ARB No. 43, Chapter 4, “Inventory Pricing.”

4. Appendix E lists pronouncements of the Accounting Principles Board (APB) and FASB existing at the date of this Statement that are within the scope of this Statement. Appendix D lists APB and FASB pronouncements that are amended by this Statement.

Measurement

Definition of Fair Value

5. Fair value is the price that would be received for an asset or paid to transfer a liability in a current transaction between marketplace participants in the reference market for the asset or liability.

Current Transaction

6. A fair value measurement presumes the absence of compulsion (duress). Therefore, a current transaction is not a forced transaction (for example, a forced liquidation or distress sale). Rather, a current transaction is an orderly transaction that assumes adequate exposure to the market prior to the measurement date and reflects market conditions existing at that date. In the absence of a transaction involving the entity,³ the price that forms the basis for the measurement is an estimate, determined by

²Accounting pronouncements that require measurements using VSOE of fair value are AICPA Statement of Position 97-2, *Software Revenue Recognition*, as modified by AICPA Statement of Position 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, and EITF Issues No. 00-3, “Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity’s Hardware,” and No. 00-21, “Revenue Arrangements with Multiple Deliverables.”

³ All references to *entity* refer to the reporting entity.

reference to a hypothetical transaction for the asset or liability at the measurement date.⁴ In developing the estimate, the emphasis is on the assumptions that marketplace participants in the reference market for the asset or liability would use in their estimate of fair value.

Marketplace Participants

7. In broad terms, marketplace participants are buyers and sellers in the reference market for the asset or liability that are:
 - a. Independent of the entity, that is, they are not related parties⁵
 - b. Knowledgeable, having a reasonable level of understanding about factors relevant to the asset or liability and the transaction, based on all available information, including information obtained through due diligence efforts
 - c. Able to transact for the asset or liability, having the legal and financial ability to do so
 - d. Willing to transact for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Reference Market

8. The reference market is the most advantageous market in which the entity would transact for the asset or liability. Because different entities with different business activities transact in different markets, the reference market for the asset or liability will differ depending on the following:
 - a. The business activities of the entity. For example, a broker-dealer that sells securities generally would transact in different markets than its customers.
 - b. The unit of account for the asset or liability in the most advantageous market in which the entity would transact for the asset or liability. The unit of account describes the asset or liability by reference to the level at which it is aggregated (or disaggregated). The unit of account establishes what is being measured at fair value, that is, whether the estimate is for an individual asset or liability or a group of assets and/or liabilities, including a business.⁶

⁴The measurement date is the effective valuation date.

⁵This Statement uses the term *related parties* consistent with its use in FASB Statement No. 57, *Related Party Disclosures*.

⁶The unit of account should be determined in accordance with the provisions of other applicable accounting pronouncements.

9. If there are multiple markets for the asset or liability with different prices, the principal market for the asset or liability is presumed to represent the most advantageous market and, therefore, the reference market for the asset or liability.

Application to Assets

10. For an asset, the reference market is the market with the price that maximizes the amount that would be received for the asset, assuming the highest and best use of the asset from the perspective of marketplace participants. Therefore, the estimate of fair value reflects the market's estimate of the future inflows associated with the asset (discounted).

11. The highest and best use of an asset establishes the valuation premise used to estimate the fair value of the asset. Specifically:

- a. If the highest and best use of an asset is in-use, the estimate of fair value shall be determined using an in-use valuation premise (fair value in-use). The highest and best use of an asset is in-use if marketplace participants would continue to use the asset as it is currently installed or otherwise configured for use by the entity (the hypothetical transaction involves an asset group). That generally will be the case when the asset is an operating asset that provides value principally through its use in combination with other assets as part of an asset group, including a business (for example, certain intangible assets).
- b. If the highest and best use of an asset is in-exchange, the estimate of fair value shall be determined using an in-exchange valuation premise (fair value in-exchange). The highest and best use of an asset is in-exchange if marketplace participants would not continue to use the asset as it is currently installed or otherwise configured for use by the entity or if the asset provides value principally on a stand-alone basis (the hypothetical transaction involves a standalone asset). In that case, the asset is separable or substitutable with other equivalent assets (for example, a financial asset).

12. Because the highest and best use of an asset is considered from the perspective of marketplace participants, the estimate of fair value is based on the assumptions that marketplace participants would use in their estimate of fair value, whether using an in-use or an in-exchange valuation premise.

Application to Liabilities

13. For a liability, the reference market is the market with the price that minimizes the amount that would be paid to transfer the liability to a marketplace participant that would similarly perform or similarly bear the consequences of not performing. The estimate of fair value shall consider the effect of the entity's credit standing on the creditworthiness of the liability in all periods in which the liability is measured at fair value so that the estimate reflects the price that would be paid to transfer the liability in a transaction between marketplace participants of comparable credit standing.⁷ Therefore, the estimate of fair value reflects the market's estimate of the future outflows associated with the liability (discounted).

Transaction Costs

14. The price in the reference market for the asset or liability shall not be adjusted for transaction costs, that is, the incremental direct costs to transact in that market.⁸ Transaction costs are characteristics of the transaction, not the particular asset or liability involved in the transaction. Transaction costs shall be accounted for in accordance with the provisions of other applicable accounting pronouncements. However, the price in the reference market for the asset or liability shall be adjusted for transportation costs, that is, the costs to access that market, if the location of the asset or liability is a characteristic of the particular asset or liability, for example, a physical commodity whose quoted price reflects its current location.

⁷The effect of changes in the credit standing of the entity on the creditworthiness of the liability may differ, depending on facts and circumstances specific to the liability, for example, whether the liability is an obligation to deliver cash or otherwise perform, and the terms of any credit enhancements included in the contract for the liability.

⁸Incremental direct costs refer to costs that result directly from and are essential to a transaction involving an asset (or liability) and that would not have been incurred by the entity had the decision to exchange the asset (or liability) not been made, similar to cost to sell, as defined in paragraph 35 of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Fair Value Estimates at Initial Recognition and in Subsequent Periods

15. In a transaction in which the entity acquires an asset or assumes a liability, the transaction price (the price paid for the asset or received to assume the liability) is presumed to represent the fair value of the asset or liability (the price that would be received for the asset or paid to transfer the liability) at initial recognition, absent persuasive evidence to the contrary. Examples of situations in which the transaction price presumption might be rebutted include the following:

- a. The transaction is between related parties or occurs under duress where the seller is experiencing severe financial difficulties, such as bankruptcy or other financial pressures, or is forced to accept the price in the transaction because of urgency.
- b. The market in which the transaction occurs is not the reference market for the asset or liability (the entity would transact in a more advantageous market for the asset or liability).⁹ In that case, the fair value of the asset or liability to the entity would be based on the price in the reference market for the asset or liability. (If the counterparty would not transact in a more advantageous market, the fair value of the asset or liability to the counterparty would be based on the price in the market in which the transaction occurs, that is, the transaction price.)

16. In periods subsequent to initial recognition in which an asset or liability is remeasured at fair value, the estimate of fair value shall be updated so that it represents the price at which marketplace participants would currently transact. In developing that updated estimate, an entity shall consider the frequency of other similar transactions, changes in the market, and other relevant factors (for example, a change in the condition or location of an asset) since the previous estimate.

Valuation Techniques

17. Valuation techniques used to estimate fair value shall be consistent with the market approach, income approach, and cost (or asset-based) approach. Key aspects of those approaches are summarized below:

⁹The transaction price represents the fair value of the consideration paid or received in the transaction and, therefore, is presumed to represent the fair value of the transaction. However, the transaction price might not similarly represent the fair value of the asset or liability if the market in which the transaction occurs is not the reference market for the asset or liability. Whether the transaction price also can be presumed to represent the fair value of the asset or liability will depend on facts and circumstances specific to the asset or liability and the reference market for the asset or liability.

- a. The market approach uses observable prices and other relevant information generated by market transactions involving comparable assets or liabilities (including a business). The estimate of fair value is based on the value indicated by those comparable transactions.
- b. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The estimate of fair value is based on the value indicated by marketplace expectations about those future amounts. Those valuation techniques include present value techniques; option-pricing models, such as the Black-Scholes-Merton formula and lattice models, which incorporate present value techniques; and the multi-period excess earnings method, a discounted cash flow method used to estimate the fair value of certain intangible assets.
- c. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). The estimate of fair value considers the cost to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technical) 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). For a business, an asset-based approach provides an estimate of fair value based on the fair values of each of the individual assets and liabilities.

18. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available shall be used to estimate fair value. In all cases, the objective is to use the valuation technique (or combination of valuation techniques) that is appropriate in the circumstances. In some cases, a single valuation technique will be appropriate. In other cases, multiple valuation techniques will be appropriate. When multiple valuation techniques are used to estimate fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, in determining the single estimate of fair value.

19. Valuation techniques used to estimate 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 an estimate that is more representative of fair value in the circumstances. That might be the case as new markets develop, new information becomes available, or valuation techniques improve. Revisions resulting from a change in the valuation technique or its application shall be accounted for prospectively, as changes in accounting

estimates (in accordance with the provisions of FASB Statement No. 154, *Accounting Changes and Error Corrections*, paragraph 19).¹⁰

Market Inputs

20. Valuation techniques used to estimate fair value shall maximize the use of market inputs and minimize the use of entity inputs, whether using the market approach, income approach, or cost (or asset-based) approach. Market inputs refer to the assumptions that marketplace participants would use in making pricing decisions, based on market data obtained from sources independent of the entity. In contrast, entity inputs refer to the entity's internally developed assumptions of market inputs, based on the entity's own data.

21. Markets in which assets and liabilities are exchanged vary in structure and level of activity. For example, in an active market, transactions for the asset or liability occur with sufficient frequency to provide pricing information on an ongoing basis. Therefore, a quoted price in that market will be both readily available and representative of fair value. In a market that is not active, for example, a market in which there are few transactions for the asset or liability or price quotations vary substantially either over time or among market makers, a quoted price might not be readily available or representative of fair value.

22. Examples of markets in which assets and liabilities (in particular, financial instruments) are exchanged include the following:

¹⁰The disclosure requirements of Statement 154 for a change in estimate do not apply for revisions resulting from a change in a valuation technique or its application.

- a. *Exchange market.* An exchange market provides high visibility and order to the trading of financial instruments. Typically, closing prices are both readily available and representative of fair value. In an exchange market, multiple identical exchange units are traded. An example of such a market is the New York Stock Exchange.
- b. *Dealer market.* In a dealer market, 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 asked prices are more readily available than closing prices. In a dealer market, multiple identical exchange units are traded. Over-the-counter (OTC) markets (where prices are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by the National Quotation Bureau) are dealer markets. For example, the market for U.S. Treasury securities is a dealer market. Dealer markets also exist for other assets and liabilities, such as financial instruments, commodities, and physical assets (for example, certain used equipment).
- c. *Brokered market.* In a brokered market, 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.
- d. *Principal-to-principal market.* Principal-to-principal transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be released publicly.

Fair Value Hierarchy

23. The fair value hierarchy distinguishes between the inputs to valuation techniques used to estimate fair value, considering the relative reliability of the inputs. The availability of inputs relevant to the asset or liability and the relative reliability of the inputs may affect the selection of appropriate valuation techniques. However, the fair value hierarchy focuses on the inputs to valuation techniques, not the valuation techniques themselves.

24. The fair value hierarchy gives the highest priority to market inputs that reflect quoted prices for identical assets or liabilities in active markets (Level 1) and the lowest priority to entity inputs (Level 5). In some cases, inputs to valuation techniques used to estimate fair value might fall within different levels of the fair value hierarchy. Where within the fair value hierarchy the estimate of fair value falls depends on where within the

fair value hierarchy the inputs that have a significant effect on the estimate fall. The inputs used to estimate fair value shall be evaluated and weighted, as appropriate, in assessing the effect of those inputs on the estimate.¹¹

Level 1 Inputs

25. Level 1 inputs are market inputs that reflect quoted prices for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market provides the most reliable estimate of fair value and shall be used to estimate fair value whenever available, provided that the entity has the ability to access that market for the asset or liability at the measurement date.

26. In some situations, significant events (principal-to-principal transactions, brokered trades, or announcements) might occur after the close of a market but before the measurement date. In those situations, a quoted price in that market might not be representative of fair value at the measurement date. An entity should establish and consistently apply a policy for determining how those events affect estimates of fair value.

Bid and asked prices

27. If a price in an active market is quoted in terms of bid and asked prices (for example, in an active dealer market where the bid price represents the price the dealer is willing to pay and the asked price represents the price at which the dealer is willing to sell), the estimate of fair value shall represent the price within the bid-asked spread at which marketplace participants would currently transact. For offsetting positions in the same instrument, the same price shall be used to estimate the fair value of both the long and short positions.

Blocks

28. If an entity holds a large position of a financial instrument with a quoted price in an active market (block), the fair value of the position shall be estimated within Level 1 as the product of the quoted price for an individual trading unit times the quantity held. The

¹¹This Statement does not require a formulaic sensitivity analysis of the inputs used to estimate fair value as a basis for assessing the effect of those inputs on the estimate.

quoted price shall not be adjusted by a blockage factor, that is, a discount (or premium) based on the size of the position relative to trading volume, even if a market's normal trading volume for one day is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.¹²

Alternative pricing methods

29. If an entity holds a large number of similar assets and liabilities that are required to be measured at fair value, a quoted price in an active market might not be readily accessible for each of those assets and liabilities (for example, from pricing services or individual broker-dealers). In that case, fair value may be estimated within Level 1 using an alternative pricing method (for example, matrix pricing) as a practical expedient, provided that the method is demonstrated to replicate actual prices. The practical expedient within Level 1 is limited to situations in which individual price quotes could be obtained but, for practical reasons, are not.

Level 2 Inputs

30. Level 2 inputs are market inputs that reflect quoted prices not encompassed within Level 1, that is, (a) quoted prices for identical assets or liabilities in markets that are not active and (b) quoted prices for similar assets or liabilities in all markets, regardless of the level of activity. A quoted price within Level 2 shall be adjusted, as appropriate, considering factors specific to the asset or liability. An adjustment having a significant effect on the estimate might render the estimate a lower level estimate.

Restricted securities

31. If an entity holds a restricted security, the fair value of the security shall be estimated based on a quoted price for an otherwise identical unrestricted security of the same issuer, adjusted as appropriate to reflect the effect of the restriction, that is, the amount a marketplace participant would demand to assume the risk arising from the inability to access a public market for the security for the specified period. That general

¹²The guidance in this Statement applies for blocks held by broker-dealers and investment companies within the scope of the AICPA Audit and Accounting Guides for those industries.

principle applies regardless of when the restriction terminates. A restricted security is a security for which sale is legally restricted by governmental or contractual requirement for a specified period, whether the restriction limits sale (for example, to qualifying investors) or prohibits sale.¹³

Level 3 Inputs

32. Level 3 inputs are market inputs other than quoted prices that are directly observable for the asset or liability. If the asset or liability is a financial instrument, a Level 3 input must be observable over the full term of the instrument. Examples include interest rates, yield curves, volatilities, and default rates.

Level 4 Inputs

33. Level 4 inputs are market inputs that are not directly observable for the asset or liability but that are corroborated by other market data through correlation or by other means, thereby incorporating market data that are observable (market-corroborated inputs). If the asset or liability is a financial instrument, a Level 4 input must be corroborated by other market data over the full term of the instrument. Examples include inputs that are derived through extrapolation or interpolation.

Level 5 Inputs

34. Level 5 inputs are entity inputs. Examples include inputs that are derived through extrapolation or interpolation but that are not corroborated by other market data. Entity inputs may be used to estimate fair value as a practical expedient in the absence of market inputs. When using entity inputs, the fair value objective remains the same. Therefore, entity inputs shall be developed within market parameters, eliminating factors specific to the entity whenever possible.

¹³The guidance in this Statement applies for equity securities with restrictions that terminate within one year that are measured at fair value under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Disclosures

35. An entity shall disclose information that enables users of its financial statements to evaluate the extent to which fair value is used to remeasure assets and liabilities recognized in the statement of financial position and the inputs used to develop the estimates. To meet that objective, an entity shall disclose the following information for each interim and annual period for which a statement of financial position is presented, separately for each major category of assets and liabilities (except as otherwise specified):

- a. For assets and liabilities that are remeasured at fair value on a recurring basis (for example, trading securities), the fair value estimates at the reporting date, in total and as a percentage of total assets and liabilities
- b. For assets and liabilities that are remeasured at fair value on a nonrecurring basis (for example, impaired assets), the fair value estimates and the reason(s) for the remeasurements
- c. Where within the fair value hierarchy the fair value estimates in (a) and (b) above in their entirety fall, segregating those estimates that fall within Level 1, Levels 2–4, and Level 5
- d. For annual periods only, the valuation technique(s) used for the fair value estimates in (a) and (b) above.

36. An entity shall disclose information that enables users of its financial statements to evaluate the effects of fair value remeasurements on income (or changes in net assets) for the period. To meet that objective, an entity shall disclose the following information for each interim and annual period for which a statement of financial performance is presented:

- a. Total gains or losses for the period relating to each major category of assets and liabilities remeasured at fair value during the period, even if those assets and liabilities are not still held at the reporting date. Total gains or losses shall be presented separately if the related assets or liabilities are reported separately in the statement of financial performance, segregating those gains or losses included in other comprehensive income.
- b. The change in unrealized gains or losses during the period relating to assets and liabilities remeasured at fair value during the period that are still held at the reporting date if the estimates fall within Level 5.

37. The quantitative disclosures required by this Statement shall be presented using a tabular format. (See Appendix B.)

38. The fair value information disclosed under this Statement shall be combined and disclosed together with the fair value information disclosed under other accounting pronouncements (for example, FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*) in the periods in which those disclosures are required, if practicable. Disclosures about other similar remeasurements (for example, inventories remeasured at “market value” under ARB 43, Chapter 4) are encouraged but not required.

Effective Date and Transition

39. This Statement shall be effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, except as follows. The disclosure requirements of this Statement (paragraphs 35–38) shall be effective for financial statements issued for fiscal years ending after December 15, 2006. Earlier application is encouraged.

40. This Statement shall be applied prospectively as of the first interim period for the fiscal year in which this Statement is initially applied, except as follows. Paragraph 28 of this Statement (blocks) shall be applied retrospectively to all prior periods. The cumulative effect of the change in accounting principle on periods prior to those presented shall be reflected as of the beginning of the first period presented. An offsetting adjustment shall be made to the opening balance of retained earnings for that period. In the fiscal year in which this Statement is initially applied, and in all interim periods within that fiscal year, an entity shall disclose the effect of the change in accounting principle on income before extraordinary items and any affected per-share amounts, if applicable (Statement 154, paragraphs 17(b)(2) and 18).

<p style="text-align: center;">The provisions of this Statement need not be applied to immaterial items.</p>
