



# Fair Value Level Three Assets

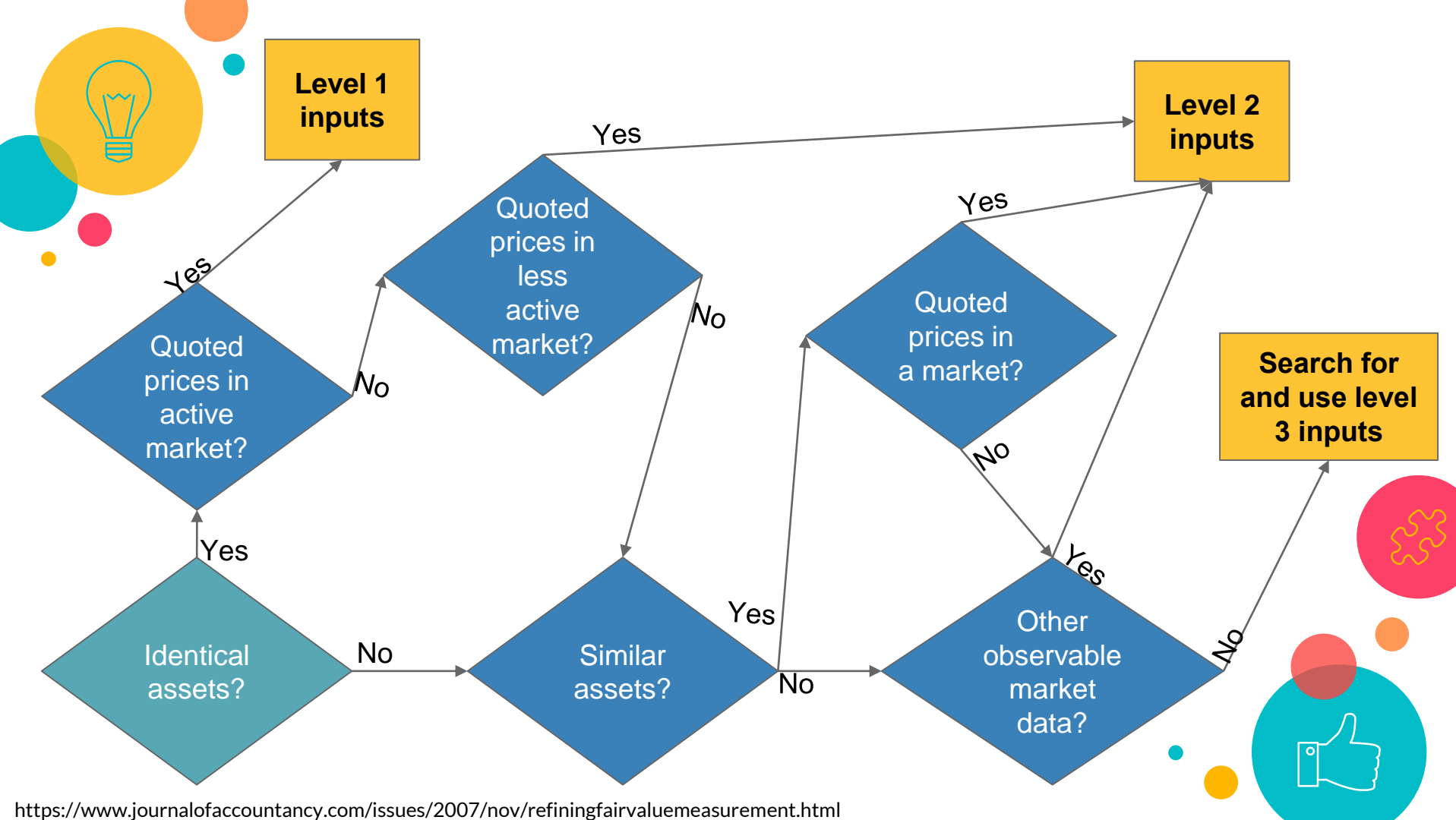
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## FASB's Reporting Requirements

- Assets are valued at the “highest and best use of the asset by market participants”
- While considering the use of the asset (at the measurement date) is:
  - physically possible
  - legally permissible, and
  - financially feasible





A decorative graphic featuring several overlapping circles in teal, orange, and red. A large teal circle on the left contains the text 'Trivia Time!'. Above it, a smaller orange circle contains a lightbulb icon. In the bottom right corner, a teal circle contains a thumbs-up icon, and an orange circle contains a puzzle piece icon. Various other smaller circles in the same color palette are scattered around the main elements.

Trivia Time!

**Goal:** Name which level each given asset belongs to

A decorative graphic featuring a large teal circle on the left containing the text "#1". To its right is a smaller yellow circle with a lightbulb icon. In the bottom right corner, there is a teal circle with a thumbs-up icon, a yellow circle with a puzzle piece icon, and several smaller red and orange circles scattered around. The background is a light blue rectangle.

#1

Interest rate  
swap

#2



## Foreign stocks





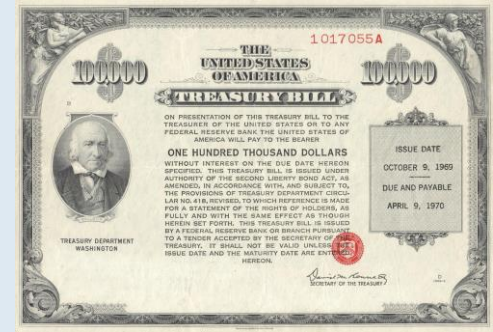
#3

Certain private equity  
investments



#4

## Treasury Bills







#5

Currency swap



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#6

Marketable securities

# U.S. GAAP versus IFRS



	<u>U.S. GAAP</u>	<u>IFRS</u>
<b>Exemptions for nonpublic entities</b>	Exempt from some disclosures	Not exempt from some disclosures
<b>Requirements for Level 3 Recurring Measurements</b>	Disclosing is not required	Disclosing is required





## Main Concern

- Management's discretion in fair value estimates for Level 3 assets
  - Uncertainty about accuracy



## Solution

- Develop a method to check the calculations of the fair value estimates for level three assets
  - Use the Cash Flow Information and Present Value in Accounting Measurements Concept (Statement of Financial Accounting Concepts No. 7) to guide the estimation

# Cash Flow Information Concept

- Goal: “estimate the price likely to exist in the marketplace”
- How? Estimate amounts:
  - Minimum
  - Maximum
  - Most Likely
- Why?

Fair value must be based on the “best information available”



## Benefits to Our Solution

- Less pricing deviations
- Consistent reporting across companies
- Clear expectations amongst managers
- Limit manipulations with the calculations
- More clarity for auditors





Questions?