

# Table of Contents

<b>CHAPTER 1 – THE EVOLUTION OF FAIR VALUE.....</b>	<b>5</b>
1.1 HISTORICAL COST .....	5
1.2 THE RISING TIDE OF FAIR VALUE: THE S&L CRISIS .....	7
1.3 A NEW SENSE OF URGENCY: THE ENRON CRISIS .....	9
1.4 SFAS 157: FAIR VALUE MEASUREMENTS .....	11
<b>CHAPTER 2 – MEASUREMENT.....</b>	<b>18</b>
2.1 DEFINITION OF FAIR VALUE.....	18
2.2 FAIR VALUE FRAMEWORK .....	19
2.2.1 <i>The Price</i> .....	20
2.2.2 <i>The Principal (or Most Advantageous) Market</i> .....	20
2.2.3 <i>Market Participants</i> .....	21
2.2.4 <i>Attributes of the Asset or Liability</i> .....	22
2.2.5 <i>“Highest and Best Use”</i> .....	22
2.2.6 <i>Unit of Account</i> .....	24
2.3 FAIR VALUE AT INITIAL RECOGNITION .....	24
<b>CHAPTER 3 – VALUATION TECHNIQUES &amp; INPUTS.....</b>	<b>33</b>
3.1 VALUATION TECHNIQUES .....	33
3.2 VALUATION INPUTS .....	35
3.3 FAIR VALUE HIERARCHY .....	37
3.3.1 <i>Level 1 Inputs</i> .....	38
3.3.2 <i>Level 2 Inputs</i> .....	38
3.3.3 <i>Level 3 Inputs</i> .....	39
3.4 PRICING SERVICES AND BROKER QUOTES.....	40
3.5 BID-ASK PRICES .....	41
<b>CHAPTER 4 – AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES.....</b>	<b>49</b>
4.1 SFAS 157 DISCLOSURES.....	49
4.1.1 <i>Assets and Liabilities Measured at Fair Value on a Recurring Basis</i> .....	50
4.1.2 <i>Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis</i> .....	51
4.2 SAS NO. 101, AUDITING FAIR VALUE MEASUREMENTS AND DISCLOSURES .....	54
4.2.1 <i>Understanding the Entity’s Process for Determining Fair Value Measurements and Disclosures and the Relevant Controls, and Assessing Risk</i> .....	54
4.2.2 <i>Evaluating Conformity of Fair Value Measurements and Disclosures with GAAP</i> .....	55
4.2.3 <i>Testing the Entity’s Fair Value Measurements and Disclosures</i> .....	56
4.2.4 <i>Testing Management’s Significant Assumptions, the Valuation Model, and the Underlying Data</i> .....	57
4.2.5 <i>Auditing Disclosures about Fair Values</i> .....	60
<b>CHAPTER 5 – THE FAIR VALUE OPTION.....</b>	<b>68</b>
5.1 THE FAIR VALUE OPTION .....	68
5.2 SFAS 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES .....	69
5.2.1 <i>Scope</i> .....	69
5.2.2 <i>Excluded Items</i> .....	70
5.2.3 <i>Accounting Election</i> .....	70
5.2.4 <i>Timing</i> .....	71
5.2.5 <i>Accounting Impact</i> .....	72
5.2.6 <i>Disclosure Requirements</i> .....	73
<b>CHAPTER 6 – THE FUTURE OF FAIR VALUE.....</b>	<b>80</b>

6.1 FAIR VALUE ACCOUNTING UNDER IFRS.....	80
6.2 THE CREDIT CRISIS .....	81
6.3 THE CRITICAL BACKLASH AT “FAIR VALUE” .....	83
<b>GLOSSARY .....</b>	<b>93</b>
<b>FINAL EXAM .....</b>	<b>97</b>