Level 2 Assets: Definition, Examples and Vs. Level 1 and Level 3 Assets

What is a Level 1 Asset?

A Level 1 asset is a financial asset whose fair value can be determined using observable market data. This may include financial liabilities, such as debt, or financial assets, such as equity. The key feature of a Level 1 asset is that its fair value is based on observable data, which means that the price is determined by market transactions. Examples of Level 1 assets include publicly traded stocks, bonds, and derivatives.

What is a Level 2 Asset?

A Level 2 asset is a financial asset whose fair value can be determined using market data that is not frequently traded or observable. This may include financial liabilities, such as debt, or financial assets, such as equity. The key feature of a Level 2 asset is that its fair value is based on observable data, but it is not as frequently traded or observable as a Level 1 asset. Examples of Level 2 assets include private equity funds, real estate, and certain types of derivatives.

What is a Level 3 Asset?

A Level 3 asset is a financial asset whose fair value cannot be estimated using observable market data. This may include financial liabilities, such as debt, or financial assets, such as equity. The key feature of a Level 3 asset is that its fair value is based on model-based estimates, which are not frequently traded or observable. Examples of Level 3 assets include certain types of derivatives, real estate, and private equity funds.

Understanding Level 2 Assets

Publicly traded financial assets are Level 1 assets, since their fair values are determined based on observable market prices. However, many financial assets and liabilities cannot be valued using observable market prices. These assets are Level 2 assets, as their fair values are determined using observable market data. For example, a private equity fund may be valued using the observed values for underlying interest rates and default rates.

Level 2 assets must be valued using market data derived from internal, external, or independent sources. The data used could include quoted prices for similar financial instruments, prices for identical or similar assets and liabilities in active markets, prices for identical or similar financial instruments in inactive markets, or market data for investments with unobservable inputs. The observable inputs used to value Level 2 assets can be further divided into Level 1 and Level 3 inputs.

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Articles

Fair Value: Its Definition, Formula, and Example
Level 3 Assets: Definition, Examples, Vs. Level 1 and Level 2
Level 1, 2, and 3 Assets: Financially, How Are They Different?

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.

Related Terms

Level 2 assets are frequently valued using observable market data. For example, publicly traded stocks and bonds are valued using observable market prices. However, Level 2 assets can be valued using unobservable inputs, such as the observed values for underlying interest rates and default rates.