Date

12 June 2007

Le Président

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Sir David Tweedie
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Dear Sir David,

Re: IASB Discussion Paper on Fair Value Measurements

1. FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased to submit its comments on the IASB Discussion Paper "Fair Value Measurements". FEE, as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on EFRAG's preliminary comments (draft letter of 1 March 2007). We have also considered EFRAG's final submission to the IASB of 29 May 2007. We in general support the EFRAG final comment letter. We have indicated where we are in agreement with EFRAG's comments, where we are in disagreement our own views are put forward. Below we set out our general observations followed by responses and comments to the questions raised by the IASB as set out in the Invitation to Comment.

2. We welcome the IASB addressing the issue of fair value measurements, measurement being a fundamental aspect of accounting. Measurement is now being considered in two important IASB projects, the Framework Project and the Fair Value Measurements Project to which the underlying comments refer.

General Observations

3. As EFRAG acknowledges in its letter this IASB Discussion Paper is about **how** to apply fair value and does not address the questions **when** to apply fair value. We agree that a debate would be needed to define "when and what" to fair value in the form of criteria and definition of candidate measurement bases. The Framework project needs to be further developed to address the objectives of financial reporting and which picture of the financial position and financial performance, financial statements should provide before the Discussion Paper is taken to the stage of an Exposure Draft. Furthermore, although we, in general, support the convergence of international standards and US GAAP we are concerned about the approach taken in the Discussion Paper of including the FASB standard, SFAS 157 even though we realise that SFAS 157 is at present the only available standard and may be a logical starting point. However, including SFAS 157 may create in our view the risk that SFAS 157 - developed for the US market - is adopted into IFRS with minor changes instead of aiming for the best solution.

4. We appreciate the IASB's recognition in paragraph 7 of the invitation to comment that the Fair Value Measurements Project is not a means of expanding the use of fair value in financial reporting. A mixed attribute measurement model would be more satisfactory at present and we therefore suggest that such a model should be subject to further research. We question the underlying

assumption in the paper that market-based transfer value is the most relevant measurement base of fair value irrespective of the circumstances. We believe that other valuation methods can be considered as being relevant such as a current ultimate settlement method or the value in use concept. These two alternative methods both convey, in our opinion, appropriate information about the future cash-flows related to an asset or a liability, in certain circumstances and in particular when the asset or the liability is not intended for sale but for ongoing use or settlement by the entity. Also, a (hypothetical) market price does not reflect the expectations and risk preferences of all market participants, condensed to a single price that can be expected to earn the current rate of return available in the marketplace for commensurate risk at the measurement date. Instead, prices stemming from imperfect markets, which in practice will mostly be the case, merely reflect the expectations of the individuals carrying out the particular transaction. We also wish to raise your attention to the reliability and verifiability of measurement where the determination of fair value is dependent upon an assessment of a transaction in a hypothetical market, both for valuation at fair value at initial recognition and for subsequent measurement. While we agree that relevance is a significant qualitative characteristic of financial information, there has to be a balance with the reliability and verifiability characteristics. Consequently any proposal to use fair value as a measurement base has to include an assessment of whether reliability and verifiability issues outweigh the benefits of relevance.

5. In principle we welcome the IASB initiative and objective to establish a single *generic* source of guidance for all fair value measurements required by IFRS. Fair value measurement requirements of individual standards may in some cases still require additional, specific standards-level guidance and illustrative examples. We agree with EFRAG that the current IASB Discussion Paper does not meet this objective:

   - The Discussion Paper focuses on fair value defined as a market-based transfer notion. We consider this definition of the fair value concept to be too restrictive.
   - In the IASB's literature and current IFRS, not all fair values are exit values. In some instances fair value reference has been included with the objective of determining the **entry price** of an item.
   - Even when an exit price notion is referred to, a **market-based transfer value** is not the only way of expressing an exit price. We agree that in some instances, when there is an active market in which an entity operates, an exit price defined as a market-based transfer price will be suitable to measure the item. However, other instances, where there is no active market, an exit price based on a settlement concept is more appropriate in our views to measure the fair value of an item (a current "**ultimate settlement value**") since this better reflects the current value of the future cash-flows to be realised out of the instrument.

6. We consequently agree with EFRAG that sticking to the term "fair value" in the IASB Discussion Paper is not helpful since it is a general term used for a variety of measurement bases much wider than market-based transfer value. It would be better to use this more specific label in the appropriate circumstances. The term "fair value" moreover gives all kinds of problems in translation, and there is a risk that translations become, in some instances interpretations. We do not believe that there can be one concise definition of fair value. The application of fair value in the individual standards is what counts. Moreover SFAS 157 and US GAAP have a different, narrower scope in the use of fair value than IFRS mainly focusing on financial instruments and business combinations. It may not be possible to develop one fair value definition for the different uses of fair value in IFRS.

7. We agree with EFRAG that the Discussion Paper may contain apparent contradictory messages around the notion of an exit price based on a market participant's perspective in the absence of an active market and consequently that this notion is not so easy to deal with.

   - If the market participant is meant to be another seller (refer to the definition of a market participant which is said to hold the asset or owe the liability), we do not understand why this other seller has to be independent of the reporting entity because in the absence of market data available, the one who will dispose of the most appropriate data will be the reporting entity

- If the market participant is meant to be an entity which is independent from the reporting entity, the market-based transfer price will not always give a predictive value of the future cash-flows of the reporting entity. This is because it will take into consideration input/data from a market participant's perspective, which, by construction, will be different from the entity's estimate input/data (in particular for the estimated operational costs, the risk uncertainty component,…). Consequently the future cash-flows estimate using market data will not be representative of the future cash-flows related to a specific asset/liability and the resulting performance will not be representative of the future performance of the entity. It will result in the recognition of gains or losses that would necessarily reverse until maturity or a date of disposal.

8. Fair value, in our view should be a wide measure of current value. The Discussion Paper embraces the market participant's perspective rather than the entity's perspective, it is however not clear why expectations of a – even virtual – market participant should result in more relevant information than management expectations including the entity-specific synergies. In particular when fair values are derived through valuation techniques their relevance is severely impaired, since users of financial statements have to assess the assumptions which are often made on the basis of non-observable market data. The users will not be able to assess the timing and uncertainty of future cash-flows from the fair values of those assets and liabilities. Inputs which take fully into account the entity's abilities to generate cash flows from an item will meet the objective of providing users with information about future expected cash flows better than values derived from hypothetical transactions using non-observable input (as proposed in levels "2" and "3").

9. We therefore support EFRAG's finding that the Discussion Paper does not express adequately the concept of principal (or most advantageous) market. We are convinced that taking into consideration data from the market in which the reporting entity would sell and where there is the greatest volume and level of activity for the asset or the liability is only appropriate if the entity is currently operating or reasonably expects to start operating on this market. If it is not the case (because operating on that market is too complex or costly, or simply because this reporting entity does not operate on that market), it is not relevant for that entity to refer to that market's data for fair valuing its assets or its liabilities.

10. Further reflection and elaboration is needed on the unit of account concept and the unit of measurement in the current Discussion Paper as well as in SFAS 157.

Responses to the Questions Raised in the Invitation to Comment

11. Like EFRAG, we are currently not persuaded that the fair value that is referred to in existing IFRS should be an exit value in all cases, or a market-based measure. We refer to our general observations above. However, in order to be helpful we have assumed, in answering Questions 4 to 27, that the objective *is* to define a market-based exit value, and that the main objective is to agree how that value is best arrived at. Also all FEE's answers to those questions should be read in that context.

Question 1: In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not?

12. We agree that a single *generic* source of guidance for all fair value measurement**s** (-emphasize measurements in plural form-) in IFRS would be useful. Such guidance should primarily comprise guidance on valuation techniques that can be used to arrive at fair value. A single guidance will most likely not constitute a reduction in complexity. Fair value is very complex and harmonising the guidance will not change this. We agree with the arguments set out in the EFRAG response. In the Discussion Paper it would however be useful not to use the term "fair value" but a more specific term such as "market-based transfer value". Alternatively the Discussion Paper should be extended to cover all fair value measurement**s** that form part of the generic concept of fair value. We are at present not convinced that fair value as defined in the Discussion Paper, sufficiently covers the use

of the term fair value in the current IFRS. We support that the IASB revisits each individual standard to consider whether the term "fair value" needs to be replaced by a more specific description.

Question 2: Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.

13. We support the EFRAG response. Guidance in relation to IFRS needs to be shorter than SFAS 157 and less onerous for preparers and auditors to follow, given that IFRS aim to be principles-based. We observe that at present IFRS do not contain single fair value measurement guidance. Several standards contain specific guidance. Fair value is used in current IFRS in circumstances where it is not used in US-GAAP such as the use of replacement value under IAS 16.

Question 3: Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?

14. We support EFRAG conclusions that fair value should not always be an exit value notion defined as a market-based transfer value (exit price from the perspective of a market participant). A general exit price notion would imply that it would be necessary for each asset acquired in a market transaction from an independent market participant to determine an exit price based on the market participants view in order to calculate day-to-day gains or losses. This would not only cause additional costs compared with using the actual transaction price at initial recognition, but often hardly be practical. Furthermore, the information value of these day-to-day gains or losses can be questioned, especially when these are resulting from level "3" measurements and are less reliable and less relevant, in some cases. In particular, where service is provided profit recognition should be in line with the provision of the service.

15. If current exit value leads to a range of possible outcomes which are all justifiable and the transfer price is within that range it would be difficult to justify a gain at inception (day to day gain).

Should fair value always be defined as an exit price?

16. Fair value is sometimes better reflected by an **entry value.** For example for items (such as certain financial assets or financial liabilities) that are recognised and measured at fair value initially but subsequently accounted for at cost (not re-measured at fair value). It is also logical to use an entry price concept when, for example, fair value is used as a substitute for historical cost in circumstances in which no historical cost is available (e.g., for identifiable assets and liabilities in a business combination). For example, it could be argued in the case of identifiable assets in a business combination that the measurement objective for each asset or liability should be to arrive at a figure that would have been the acquisition price had the item been acquired separately.

Should an exit value always be defined as a market-based transfer price?

17. We consider that it is logical to retain fair value based on a transfer price when an item is managed in that perspective and where perfectly liquid and active markets exist. This is the case of most financial instruments currently remeasured at fair value under IAS 39 or investment properties accounted for under IAS 40, At the time these assets or liabilities enter the financial statements, it is known that they will be transferred in the future, in whole or by components of risk. A transfer price is consequently the most predictive measure of future cash-flows to be generated by the reporting entity associated with those assets or liabilities. On the contrary, a settlement notion is more appropriate when there is no transfer or when the liability is not transferable. This is also the case when there is no active market (see above). We therefore support EFRAG's concerns on the reference to the perspective of a market participant. Only very few markets are perfectly liquid and active. Therefore we question the conclusion that fair value should be based on market-based values only and that entity-specific values cannot be used. We question whether fair value based on a hypothetical transaction using non-observable input is more objective rather than an entity-

settlement value. Furthermore, we have doubts whether the same reasoning can be applied to assets and liabilities. The transfer of liability to a third party is not common practice. In the case of impairment tests (e.g., for property, plant and equipment) where a measurement of recoverable amount is being sought either by transfer or by use, the value-in-use is an appropriate representation of fair value (e.g., in IAS 36, Impairment of Assets).

Question 4: Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.

18. The reasoning of the Discussion Paper seems to be based on the assumption that the markets are liquid/efficient and that an equilibrium price can easily be found. In that case, we agree that an entry price also reflect current market-based expectations.

19. We agree with the EFRAG response that especially in those situations where there is no liquid market (i.e. in most situations) exit and entry price are not the same. This is because in that case there is no necessarily an equilibrium price and the transaction price at which an entity accepts to transact may differ from the price another entity may accept to transact at. This is due in particular to the fact that aside the cash-flows associated with the asset or the liability alone, these two entities may have different views on the risks and uncertainties associated with the transaction or on the amount of costs associated with the management of these assets or liabilities. In addition we also believe that in these cases entry and exit will usually be in different markets.

20. Furthermore, it is essential, in our view, to clarify the terms “exit price” and “entry price”. The appropriate market for determining an asset’s entry price is the entity’s relevant procurement market, whereas for the exit price, the entity’s relevant sales market is the appropriate market. In cases where assets are bought with no intention of reselling them but for internal use only, the relevant transaction market is the procurement market. From the perspective of an individual entity these prices normally differ because the entity has in the meantime taken certain measures to add to the value, e.g. through conversion of goods or moving goods to a specific location. Another source of differences between entry and exit prices is potentially the relevant unit of account. For example, when a reporting entity buys assets individually and combines them afterwards, the proportionate value of an asset might be different because of synergies or portfolio effects. The same is true when the process is reverse, i.e. buying a portfolio and selling individual items afterwards.

Question 5: Would it be advisable to eliminate the term ‘fair value’ and replace it with terms, such as ‘current exit price’ or ‘current entry price’, that more closely reflect the measurement objective for each situation? Please provide a basis for your views.

21. We support the EFRAG request for a more precise description of the measurement to be used such as “current market-based transfer value”. The use of the term fair value is in our view inappropriate as it is a generic term which covers all the valuation types as a family of “fair values”. SFAS 157 deals only with exit price which is clearly a fair value but is not necessarily the only one. As a result we consider the approach taken by EFRAG is more appropriate.

Question 6: Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.

22. Under IFRS, in some cases fair value is in practice measured as an exit price. In other cases – where there are liquid markets – there is no significant difference between exit and entry prices. In many cases the fair value measurements under IFRS would usually be based on entry prices, for example:

- The measurement of specialised property e.g. which becomes after acquisition a complementary part of a larger investment.
- IAS 16, Property, Plant and Equipment: measurement of the cost of property, plant and equipment acquired in exchange for a non-monetary asset or assets (IAS 21.24), (Revaluation option and replacement costs).
- IAS 17, Leases: measurement of leased assets at the commencement of the lease term (IAS 17.20).
- IAS 18, Revenue: measurement of revenue at the fair value of goods or services received (IAS 18.12).
- IAS 38, Intangible Assets: measurement of the cost of an intangible asset acquired in exchange for a non-monetary asset or assets (IAS 38.45).
- IAS 39, Financial Instruments: Recognition and Measurement: measurement of financial instruments at initial recognition (IAS 39.43). An entry price interpretation is consistent with the requirement, in the case of financial instruments not at fair value through profit or loss, to add the directly attributable costs of acquisition or issue. Moreover IAS 39, AG 76 does not require an entry price but takes the transaction price as a valuation technique for modelling an exit value.
- IFRS 2, Share-based Payment: measurement of goods or services received in return for share-based payments, where the measurement is based on the value of the item received rather than on the value of the payment (IFRS 2.10).
- IFRS 3, Business Combinations: measurement of some of an acquiree's identifiable assets and liabilities at acquisition date in a business combination (IFRS 3.36 and B.16). Items that would be measured on an entry price basis include raw materials, plant and equipment estimated using a depreciated replacement cost approach and intangible assets where no active market exits.

23. We agree with EFRAG that although up-to-date values are used as required by the standards, the detailed measurement objective seems to differ quite significantly. Market-based measures seem to be used primarily when markets are very liquid and the entity intends to extract value out of the item by selling it, otherwise entity-specific measurements seem generally to be used if the item is to be held, and mid-market prices otherwise.

Question 7: Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?

24. We agree with the concerns expressed by EFRAG on the market participants' concept. In addition to the arguments raised by EFRAG we wish to observe that specialised industries such as banking and the insurance industries use internal valuation models that are accepted by their supervisors.

25. We are concerned that the Discussion Paper may contain apparent contradictory messages around the notion of an exit price based on a market participant's perspective in the absence of an active market and consequently that this notion is not so easy to deal with.

- If the market participant is meant to be another seller (refer to the definition of a market participant which is said to hold the asset or owe the liability), we do not understand why this other seller has to be independent of the reporting entity because in the absence of market data available, the one who will dispose of the most appropriate data will be the reporting entity
- If the market participant is meant to be an entity which is independent from the reporting entity, the market-based exit price will not always give a predictive value of the future cash-flows of the reporting entity. This is because:

- It will take into consideration data from a market participant's perspective, which, by construction, will be different from the entity's estimate input/data (in particular for the estimated operational costs, the risk uncertainty component,…). Consequently the future cash-flows estimate using market's data will not be representative of the future cash-flows related to a specific asset/liability and the resulting performance will not be representative of the future performance of the entity. It will result in the recognition of gains or losses that would necessarily reverse until maturity or a date of disposal.

Question 8: Do you agree the market participant view in SFAS 157 is consistent with the concepts of 'knowledgeable, willing parties' and 'arm's length transaction' as defined in IFRSs? If not, how do you believe they differ?

26. We agree with EFRAG that SFAS 157 is more restrictive than IFRS and that therefore differences may occur, but that in general the market participant view is mostly similar to that of an "arm's length transaction" between "knowledgeable" and "willing" partners.

Question 9: Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?

27. We agree with EFRAG that the fair value of a liability should not be based on a market transfer price except in the rare cases where active and liquid markets exist. Legally, assets and liabilities are different and dealing with liabilities like negative assets in our view is not correct. Market participants actually exit in different ways from holding assets and liabilities. A business that wishes to exit an asset usually does so by selling it, whereas a business that wishes to exit a liability does so through performance or by settling it with the counter party. There is therefore an asymmetry in the way that markets work for assets and liabilities, and the way in which fair value is measured should reflect that. A settlement approach to the exit value of liabilities is therefore a more realistic basis of measurement where an exit value is sought for. For many liabilities there are no possibilities for transfers since there are often legal restrictions. They typically require individual negotiation and payment of some kind of penalty.

28. We also note that settlement values usually provide better indications of future cash flows than transfer values do. Because transfers of liabilities are unusual, payments for them normally include a significant penalty element. A transfer basis of measurement would therefore tend to lead users to overestimate future cash outflows.

29. The IASB has not sufficiently articulated how and when the transfer requirement would work in practice. It is unclear to us why it would be appropriate to identify a hypothetical market participant and incorporate a hypothetical fair value that would include a profit element for the hypothetical transfer into the entity's valuation of non-financial liabilities. An example is the various contingent liabilities under IAS 37 which are hardly transferred in practice. Further discussion should take place why and under what conditions the inclusion of a profit margin into the valuation of the liability is appropriate. We wish to express a clear preference for the settlement approach to estimate fair value.

Question 10: Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?

30. Under IFRS few liabilities are required to be measured at fair value at present, with the exception of financial instruments. In practice there is often no market and the best estimate of fair value is the present value of future cash-flows to settle the liability. In some cases liabilities are assumed against the receipt of a consideration. In those cases IAS 39, AG 76 requires that on initial

recognition the transaction price is best evidence for the fair value, unless it is evidenced by a comparison with other observable current market transactions in the same instrument. So we agree with the EFRAG conclusion that liabilities are usually measured using a settlement measurement objective.

Question 11: In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.

31. We support EFRAG's view that on initial recognition, transaction price is the most appropriate measure of the value of assets and liabilities. A model-based estimate of fair value will not present at initial recognition a better fair value than the transaction price. We support View 1 of paragraph 29 a) of the Discussion Paper.

32. If level "2" or "3" measurement is based on inputs that are not observable in a market we question the appropriateness of the recognition of day-to-day gains and losses. As in IAS 39, AG 76 A, if a gain shall be recognised after initial recognition, it should be done only to extent that it rises from an evidenced change in a factor (including time). Regardless from this, we propose to question whether the concept of an exit value is an appropriate and relevant approach to measure performance obligation.

Question 12: Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.

33. We agree with EFRAG that further thinking is needed on the unit of account concept and the unit of measurement in the current Discussion Paper as well as in SFAS 157. In addition, we are of the opinion that there would be a benefit to address this issue through an amendment of IAS 39.

Question 13: Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?

34. We agree with EFRAG that the principal market and the most advantageous market are only equivalent when the most advantageous market is very liquid. We agree that entities should use the most relevant market, i.e. the market they usually use and where the initial transactions took place.

Question 14: Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?

35. In the context of market-based transfer value, it is necessary to consider attributes specific to the asset or liability that market participants would consider. However fair value should not always be based on the perspective of the market participant. We believe that the perspective of the reporting entity would be more relevant and reliable to arrive at fair value.

Question 15: Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?

36. If fair value is defined as a market based transfer notion transaction costs are not part of the fair value. However under other basis, transaction costs might be part of fair value. We support the EFRAG response that inclusion in fair value would depend on the specific nature of the transaction cost involved. A better insight needs to be provided as to which costs should be classified as transaction costs. Transaction costs should be included in fair value as far as they are costs that all market participants must incur. Transaction costs are part of historical cost and should be included in the cost at initial recognition, regardless of whether a historical cost or a fair value concept is applied subsequently. For example, transaction costs associated with a loan or a financial liability which does not form part of a trading activity are considered to be an adjustment of the interest rate. We may also suggest an alternative way of looking at the issue, i.e. that fair value itself is an attribute of a hypothetical transaction rather than of an asset (or liability) in itself. Viewed in this way, the inclusion of transaction costs in the measurement of fair value is a logical approach, especially when the related instrument is not measured at fair value subsequently.

Question 16: Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?

37. We support EFRAG's conclusion that it is difficult to answer the question without knowing how "non-performance risk" is defined and what factors other than "credit risk" are covered. We also agree that inclusion of "own credit risk" in the fair value has a counter intuitive effect of reporting an increase in earnings when the entity's credit rating is lowered and that it does not provide useful information to users. The market takes implicitly into account the entity's financial capacity.

Question 17: Is it clear that the 'in-use valuation premise' used to measure the fair value of an asset in SFAS 157 is different from 'value in use' in IAS 36? Why or why not?

38. We support EFRAG's response underlying the need to consider entity-specific values in certain circumstances based on entity specific input.

Question 18: Do you agree with the hierarchy in SFAS 157? If not, why?

39. We are in principle supportive of the proposed hierarchy.

Question 19: Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?

40. We agree with EFRAG that the differences are clear but that the application of the different levels in practice may not be clear. We are concerned that the hierarchy prioritises the inputs to the valuation techniques higher than the techniques themselves and are concerned that entity-specific input is generally not allowed in assessing the fair value of an asset. More guidance on whether parameters are observable or not, together with examples explaining what is "observable" and what is "non observable", would be useful.

Question 20: Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.

41. We agree with EFRAG that this is essentially a question of the unit of account and unit of measurement chosen that is to be used where a large number of identical items are held. The

blockage factor needs to have some consideration in determining fair value and should not be prohibited to be used in valuation at fair value.

Question 21: Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.

42. From a conceptual point of view, it would be appropriate to value those assets for which the entry price notion is applicable at ask price, whereas assets for which the exit price notion is applicable would have to be valued at bid price. We agree with the parallel drawn by EFRAG on transaction costs and its request for similar treatment. Further consideration needs to be given by IASB to the bid-ask spread issue. Bid-ask spread are a measure for liquidity and capital market efficiency. In a market with a large bid-ask spread and low liquidity, fair values become less reliable. In such cases, the measurement approach of IFRS seems therefore to be preferable compared to SFAS 157. We have doubts about using bid-ask spreads in level 2 or 3 for measures other than observable market prices.

Question 22: Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid ask spread might be more representative of fair value? Why or why not?

43. We support the EFRAG response that choice should be allowed, including the application of a pricing convention. In liquid markets bid-ask spreads will be small and there may therefore be practical reasons for allowing a standard convention as bid price for assets and ask price for liabilities.

Question 23: Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?

44. As indicated in the response to question 21 we have doubt about the applicability and usefulness of bid-ask spreads for the other measurement levels in the hierarchy beyond level 1 as to their use as non observable input.

Question 24: Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.

45. We agree with the objective of SFAS 157 that disclosures are designed to enable users of financial statements to assess the extent to which fair value is used to measure assets and liabilities recognised in the financial statements. Before introducing any further disclosure requirements the needs to users and preparers need to be taken into account. Furthermore when a wider definition is used for fair value than in SFAS 157, with different uses, there may be additional disclosures not considered in SFAS 157, such as for example in case of revaluation. The disclosures in relation to levels 2 and 3 need to be carefully considered since they risk becoming onerous. We also question whether disclosures should be grouped in one standard or be left in the separate standard dealing with the particular aspects and liabilities.

Question 25: Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why.

46. We support the EFRAG response asking for examples to be included in the guidance, as to how to apply the standard in specific situations, in particular where there is no liquid market (levels "2" and "3").

Question 26: Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts).

47. We agree with EFRAG that the guidance reads too much as financial instruments guidance and seems to be based on the assumption that there is always a liquid market available for each financial instrument. Additional guidance is needed for non-liquid markets.

Question 27: Please provide comments on any other matters raised by the Discussion Paper.

48. We support fully EFRAG's remarks about "when to use fair value". We do not believe that any decisions can be taken about the circumstances in which fair value as defined in the Discussion Paper should be used without greater analysis of what one is trying to achieve through financial statements. Further research on fair value based on exit prices needs to be conducted before its use in IFRS as the principal valuation technique.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Jacques Potdevin
President

Ref: ACC/EF-SR/JP