28 September 2009

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT – *FAIR VALUE MEASUREMENT*

In response to your request for comments on the IASB's exposure draft, *Fair Value Measurement*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.
Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON EXPOSURE DRAFT – *FAIR VALUE MEASUREMENT*

GENERAL COMMENTS

We support the Board's initiative to develop a single set of principles and guidelines that set out how fair value should be measured in terms of International Financial Reporting Standards (IFRS). We have set out below some general concerns that we would like to bring to the attention of the Board. Our responses to the specific questions raised by the Board in the invitation to comment are provided below after our general comment section.

Decision useful information

As stated in paragraph BC5 of the Basis for Conclusions, the Exposure Draft contains proposals on how entities should measure fair value, but does not specify when assets and liabilities should be measured at fair value. Our principle concern regarding the proposals in the Exposure Draft is that they might undermine the usefulness of fair values when they are required. By attempting to reduce complexity and improve consistency, the proposals might result in less relevant information being disclosed, when compared to the objective of financial statements.

We note that the Exposure Draft, "An improved Conceptual Framework for Financial Reporting" as issued in May 2008, states that the objective of financial statements is to provide decision-useful information to the entity's capital providers. The aforementioned Exposure Draft goes on to state that an entity's capital providers will be directly interested in the amount, timing and uncertainty of future cash flows. This is similar to the wording contained in the existing Framework.

We are concerned that some of the specific proposals in the *Fair Value Measurement* Exposure Draft (the ED) do not contribute to this objective. An example of this is the application of the ED that could result in a fair value measurement that is not representative of the future cash flows that might be derived by the entity from an asset. While the proposals assume that the entity would sell its existing asset in its existing condition, the entity might undertake further activities before selling the asset and so realise additional value. Further concerns are that the expected cash flows required to settle a liability may differ significantly from the cash flows required to transfer a liability to a third party. In addition, fair values are based on the presumption of a market even where none exists and where transactions might be based on contractual arrangements instead. Even if markets exist, future cash flows might be based on contractual terms that may or may not be based on current market conditions. Future cash flows may also be based on the current use of an asset, which may differ from its highest and best use.

Another example is when the entity is likely to sell an asset or transfer a liability in a market that is not the most advantageous market. The determination of fair value will be based on the most advantageous market, while the future cash flows will be generated in a different market.

In these instances, profits or losses that arise on derecognition of an asset could be very different from the unrealised profits or losses recognised throughout the life of the asset if recorded at fair value in accordance with the proposals included in the ED.

In some cases it may result in an additional gain or loss being recognised on realisation of the asset at a value that differs from these fair value proposals.

In these circumstances, the financial statements could, if they are based on the proposals in the ED, contain a combination of actual and theoretical transactions. This is because they could include a restatement of actual transactions to fair value using the ED principles and then realising or settling those assets and liabilities at amounts at a fair value that is determined on a basis that differs from those specified in the ED. With there being little requirement to differentiate between these different types of transactions, the results of stewardship of management becomes difficult to assess. Accordingly, based on the above, it is understandable that management could question the decision usefulness of the proposals in achieving fair presentation in financial statements if the financial statements are to be based on assumptions that differ from those applied in managing and operating the entity that they are responsible for.

While we recognise that the objective of the ED is to establish the principles for the determination of fair value and not a discounted cash flow value based on entity specific cash flows, we are of the view that it is important for the Board to re-evaluate the use of fair value throughout IFRS in order to identify assets and liabilities for which a discounted cash flow model is likely to provide the users of the financial statements with more relevant information about the amount, timing and uncertainty of future cash flows than that of fair value as defined in the ED.

Interim period disclosures

We do not support the proposed amendments to IAS 34 – *Interim Financial Reporting* ("IAS 34") to include all of the fair value disclosures with respect to financial instruments.

While we acknowledge that the determination of fair value of financial instruments is complex, we do not believe it to be more complex than for buildings, biological assets and cash generating units and therefore do not believe it warrants additional disclosure at the interim period, especially since it is not required for other non-financial instruments measured at fair value.

Furthermore, it is our belief that users of interim financial information would not be particularly interested in these kinds of changes since the last annual reporting period. This was corroborated by the tentative agenda decision taken by the International Financial Reporting Interpretations Committee (IFRIC) in May 2009. In the IFRIC Update for that month, the IFRIC concluded that an interim financial report should provide users with an update from the last annual reporting period and that when an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period then, in accordance with IAS 34, its interim financial report should provide an explanation of, and update to, the information included in the financial statements for the last annual financial period. For that reason the IFRIC concluded that IAS 34 provides sufficient guidance to enable entities to decide whether updates to fair value disclosures are required in interim financial reports. We agree with the conclusions reached by the IFRIC.

Accordingly, we recommend that the proposed amendment to IAS 34, paragraph 16(k) be deleted. Further, we recommend that IAS 34 paragraph 17 should be amended to specifically include a line item (k), being "changes in the valuation techniques, estimates and assumptions used to determine fair value for purposes of IFRS X." Such a change would clarify what the IFRIC already believes to be obvious and ensure that information about the changes in fair value estimates since the last annual reporting period would not be limited to only financial instruments, but extend to all assets and liabilities that are measured at fair value.

SPECIFIC COMMENTS

Question 1

The exposure draft proposes defining fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.

Is this definition appropriate? Why or why not? If not, what would be a better definition and why?

We are principally in agreement with the conceptual definition of fair value as set out in the Exposure Draft, although we believe that the practical application of this definition may present some challenges on implementation, which we have set out in our responses to the questions that follow.

We are, however, concerned with referring to fair value as an exit price. We believe that the exit price for something may not necessarily represent its value to the entity, and that is the reason why entities and individuals can trade instruments profitably. We would be more comfortable using the term "exit value" to describe fair value than "exit price" as it removes the notion of a price and replaces it with the notion of a value. This is because the term "value" is considered to have a more flexible meaning than that of "price."

Question 2

In three contexts, IFRSs use the term 'fair value' in a way that does not reflect the Board's intended measurement objective in those contexts:

(a) *In two of those contexts, the exposure draft proposes to replace the term 'fair value' (the measurement of share-based payment transactions in IFRS 2 Share-based Payment and reacquired rights in IFRS 3 Business Combinations) (see paragraph BC29 of the Basis for Conclusions).*
(b) *The third context is the requirement in paragraph 49 of IAS 39 Financial Instruments: Recognition and Measurement that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term 'fair value', but instead proposes to exclude that requirement from the scope of the IFRS.*

Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

We agree with the Board's proposed approach for IFRS 2 **–** *Share-based Payment* ("IFRS 2") and IFRS 3 – *Business Combinations* ("IFRS 3") where the valuation notion is not the same as fair value as defined in this Exposure Draft.

We agree with the proposal to retain the valuation basis currently applied for financial liabilities with a demand feature. However, we do not support the proposal that these should be treated differently to the changes to be made to IFRS 2 and IFRS 3. We believe that the outcome could be achieved in IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"), in the same way as intended for IFRS 2 and IFRS 3, by changing the measurement attribute applicable to demand features in IAS 39 rather than excluding it from the scope of the proposed standard.

It is the stated objective of the Exposure Draft to provide guidance on **how** fair value is to be determined and not **when** fair value is the appropriate measurement basis. By excluding financial liabilities with demand features from the scope of the proposed standard, it addresses when fair value may be applicable, which will result in the proposed standard also giving guidance as to when fair value is the appropriate measurement approach. We therefore believe that, by not treating all of the mentioned contexts consistently, additional and unnecessary complexity is added to the body of IFRS.

We have not identified any other contexts in which the Board should consider similar approaches.

We also recommend the following editorial change to the amendment to IFRS 2, D5 as follows: '*Market-based value is the price that would be received* ***~~or paid~~*** *to sell an asset,* ***paid to*** *transfer a liability, or exchange an equity instrument, in an orderly transaction between market participants at the measurement date, not taking into account market participants' assumptions for vesting conditions and reload features.'*

Question 3

The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

Although we agree overall with the principles proposed in the Exposure Draft, we do have some concerns about the structure of the guidance, transaction costs, the reporting entity, the use of a market that may not be the most likely market, the unit of account and inconsistencies in the extent to which entity specific information is used in determining fair value, as set out below.

Structure of the guidance

It appears that paragraphs 8, 10 and 11 are intended to work together as a hierarchy. One possible interpretation is that an entity should identify the most advantageous market (paragraph 8) and, to prevent an exhaustive search, the market in which the entity normally transacts is assumed to be the most advantageous market (paragraph 10) and, where the entity normally transacts is a number of markets, then the principal market is assumed to be the most advantageous market, provided the entity has access to that market (paragraph 11). It is questioned whether this interpretation is the Board's intended interpretation.

While it can be argued that the link between paragraphs 8 and 10 is strong enough to establish the first part of the hierarchy, the link between paragraphs 10 and 11 could be strengthened to clarify the second part of the hierarchy. For example, the wording in paragraph 11 could be amended to read *'In the absence of evidence of a single market in which the entity normally transacts, an entity may assume the <u>principal market</u> for the asset or liability is the most advantageous market, provided that the entity can access the principal market.'* As described in the introduction, we also believe that the Exposure Draft should give more weight to the most likely market in which the asset or liability will be transferred by the reporting entity.

Based on the above interpretation, it is not clear how the proposals should be applied if the most advantageous market is clearly not the market in which the entity normally transacts. For example, a farmer may prefer to sell his produce to a local market where the transport and selling activities are under his control, rather than rely on third parties to transport and sell his produce in a large city a long distance away. While the local market is the market the farmer would normally use, the city market may be a more advantageous market. In this situation, the principal market may be located in a foreign country, which the farmer could access, but again declines to use as he does not want to rely on third parties or have to go through additional logistical requirements. In this case it is contended that it is not clear which of the possible markets should be used in applying the proposals in the Exposure Draft, particularly if the principal market is not the most advantageous market. Accordingly, we believe that the interaction between the various paragraphs should be clarified, including where certain presumptions can be rebutted.

Furthermore, the Exposure Draft implies a market based approach when in many cases there may be no such market. For example, while a farmer might be able to sell produce in a local agricultural market, a manufacturer of certain products may only be able to sell them to retailers and so would have to negotiate with these retailers individually as there is no established market for such goods. We believe the proposed standard should acknowledge and provide guidance as how to deal with such situations.

Transaction costs

Paragraph 16 of the Exposure Draft states that "*If location is a characteristic of the asset (as might be the case for a commodity), the price in the most advantageous market shall be adjusted for the costs, if any, that would be incurred to transport the asset to or from that market*."

It is not entirely clear what it meant by a location that could be a characteristic of an asset, but our interpretation is that location would be expected to be a characteristic of any moveable and/or tangible asset and not just a commodity. We believe that the Exposure Draft should clarify this by replacing the term commodity with the phrase *'certain moveable and/or tangible assets'*. We believe this would clarify the objective of the guidance without limiting the application of such guidance to only certain types of assets, particularly as the term 'commodity' is not often used in IFRS and accordingly its use as opposed to a more common term raises the question as to whether it is intended to be used in a broad or narrow sense of the word.

We also note that both IFRS 5 **–** *Non-Current Assets Held for Sale and Discontinued Operations* ("IFRS 5") and IAS 36 **–** *Impairment of Assets* ("IAS 36"), in certain cases require an asset or group of assets to be measured at fair value less costs to sell. Where the fair value of such an asset has been determined in accordance with paragraph 16 of the Exposure Draft, it would take into account any relevant transport costs, but transport costs would also be included in the 'costs to sell.' Accordingly, by applying the Exposure Draft's proposals, transport costs could be taken into account twice when determining the amount at which the asset is measured. This may result in an understatement of the recoverable amount and an overstatement of the impairment loss. It is suggested that IFRS 5 and IAS 36 be amended to clarify that when transportation costs have been deducted from fair value in accordance with paragraph 16 of the Exposure Draft that they are not also included in 'costs to sell'.

Reporting entity

We note that paragraph 9 of the Exposure Draft requires that the most advantageous market is considered from the perspective of the reporting entity. We note that the reporting entity may be a parent entity presenting consolidated financial statements for a group of companies that consists of a number of business units and subsidiaries for which the most advantageous market differs.

For example, a parent company may operate in a country that imposes restrictions on access to foreign markets through exchange control regulation. That parent may have a subsidiary that operates in a country where no such restrictions exist. On consolidation we do not believe the parent should re-evaluate the most advantageous market to which it has access, and hence re-calculate fair value. Although the parent may not have access to the same markets as its subsidiary, the company in the group that holds the assets has access to the market that was used as the most advantageous market for purposes of determining fair value and thus it seems illogical for the parent company to re-calculate fair value based on a different most advantageous market to where that asset is actually held.

We recommend that the Board amend the wording in paragraph 9 of the Exposure Draft to clarify that in a group situation the most advantageous market is assessed by the subsidiary that owns the asset or has the obligation. This is consistent with the proposals in the Exposure Draft on *Financial Instruments: Classification and Measurement*, paragraph B10, issued on 14 July 2009, which states that the classification of a financial instrument depends on the way in which it is managed by the business unit that controls the instrument and not the reporting entity.

It is our recommendation that the last sentence of paragraph 9 of the Exposure Draft read as follows: *'Therefore, the most advantageous market (and thus, market participants) shall be considered from the perspective of the subsidiary or cash generating unit in the reporting entity that controls the asset or liability.'*

The use of a market that may not be the most likely market

As a result of the guidance in paragraphs 8 – 11 in the Exposure Draft, an asset or liability is valued based on its value in the most advantageous market, which, in the absence of a single, identifiable market in which the entity normally transacts, may be the principal market.

It is possible that the market used for determining fair value is not necessarily the most likely market in which the asset or liability will be traded. In this instance, the fair value would not be a reasonable representation of the future cash flows that may result from the asset or liability. It is our recommendation that the disclosure of this fact be required, in order to provide the users of the financial statements with information that will assist them in understanding the nature, timing and amount of future cash flows, which is in line with the objectives of financial statements.

The unit of account

We understand that the Board has decided against including any matters relating to the unit of account in the Exposure Draft, as the underlying standards that require fair value measurement provide guidance on the unit of account.

We are, however, concerned that, when an entity owns a large number of units of a particular item, a single advantageous market may not be the appropriate market when all of the units owned by the reporting entity cannot be absorbed by a single market to which the reporting entity has access.

For example, a reporting entity has produced 100 000 tonnes of a particular commodity. The following markets exist:

- The market in the local district in which the selling price is CU 100 per tonne and there are no transaction or transportation costs. This market only purchases 20 000 tonnes of the commodity at any one time.
- The regional market in which the selling price is CU 120, but for which transaction costs amount to CU 20 per ton and transportation costs to CU 10 per ton. This market purchases a maximum of 50 000 tonnes at any one time.
- The national market in which the selling price is CU 130, but for which transaction costs are CU 30 per ton and transportation costs CU 20 per ton. There is no limit to the number of tonnes that this market can purchase.

The most advantageous market is clearly the local district market in which the fair value is CU 100. However, it would be misleading for the reporting entity to value the full 100 000 tonnes at CU 100 per ton as the reporting entity only has the ability to sell 20 000 tonnes at that price at the balance sheet date.

For this reason we recommend that the Exposure Draft include guidance that allows entities to use more than one advantageous market where a single market cannot absorb all the units at the reporting date.

Inconsistencies in the extent to which entity specific information is used in determining fair value

For the fair value measurement of an asset for which location is a characteristic and for which the entity would incur transport costs to transport the asset to its most advantageous market, the Exposure Draft requires that transport costs be included in the determination of fair value. We believe that the location of an entity is specific to the entity and not to the asset. Therefore another market participant situated closer to the most advantageous market would reflect a different fair value for the same asset simply because of their specific location.

Furthermore, the Exposure Draft requires an asset to be measured based on its highest and best use, irrespective of whether or not the specific entity actually uses the asset in the highest and best use.

Based on the above two examples, there seems to be inconsistent guidance on whether entity specific aspects are taken into account to determine fair value or not. In some cases, such as transport costs, some entity specific circumstances are used to determine fair value. Yet in other cases, for example, where an asset is not used by an entity in its highest and best use, the Exposure Draft ignores the entity's specific circumstances.

It is our recommendation that the Board consider eliminating these inconsistencies and ensuring that the Exposure Draft consistently ignores or takes into account the entity specific circumstances.

Question 4

The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions).

Is the description of market participants adequately described in the context of the definition? Why or why not?

In our view, the description of market participants is adequately described in the context of the definition, subject to our comments included in question 5 below.

Question 5

The exposure draft proposes that:

(a) the fair value of an asset should consider a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions).

(b) *the highest and best use of an asset establishes the valuation premise, which may be either 'in use' or 'in exchange' (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions).*

(c) *the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions).*

Are these proposals appropriate? Why or why not?

We are in agreement with the principle in the Exposure Draft that fair value should be determined with reference to the highest and best use and that the highest and best use will establish a valuation premise that may be "*in use*" or "*in exchange*". We also agree that the notions of highest and best use are not relevant for financial assets and liabilities.

However, it needs to be appreciated that the application of the principle contained in the Exposure Draft may lead to information of doubtful relevance. For example, a farmer may grow a number of different fruits. He could sell those fruits in a local agricultural market, sell them in bulk to a fruit juice company, or use them in a restaurant situated on his farm. In this case the most advantageous market might not maximise the value of the asset. The premise underlying the term 'fair value' in the Exposure Draft is based on selling the asset in its existing condition, when the entity might obtain additional value from how it realises the asset. This appears to be ignored in the Exposure Draft. Thus, in this example, the 'most advantageous market' might be the local agricultural market, but to maximise value it could be using them in fruit salad in the restaurant, while the most likely transaction is the sale to the fruit juice company (even though this might not be considered a market). The reality could be that some of the fruit is used in the restaurant, even though most is sold to the fruit juice company, when the Exposure Draft implies there should be only one most advantageous market. In this example, it is questioned how relevant the use of fair value is in predicting future cash flows of the entity as fair value in the proposals is not based on how those assets are actually used and managed by the entity.

Question 6

When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions).

Is the proposed guidance sufficient and appropriate? If not, why?

We believe that this is another area where the fair value proposed by the Exposure Draft will not necessarily represent the future cash flows to be derived by the entity from using the asset. We do, however, note that the disclosures proposed require disclosure in respect of assets whose fair value is determined in this way and that this will provide the users of financial statements with insight into the future cash flows, which may be derived from the assets, and any uncertainty related to those cash flows. This additional disclosure could have cost implications as it might result in an entity having to incur further costs in obtaining an additional valuation.

Question 7
The exposure draft proposes that:

(a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions).
(b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions).
(c) if there is no corresponding asset for a liability (e.g. for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS).

Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

We believe that the proposals are appropriate if compared with the other proposals contained in the Exposure Draft. However, our concern is that there may be no market for the liabilities and accordingly the value may be based on a theoretical transaction that is not capable of being substantiated. Again the use of this value is questioned, particularly as to how often it will be relevant, particularly if this is not an indicator of future cash flows. We question whether it is in fact correct that, in all cases, the fair value of a liability held by one party is represented by the fair value of the financial instrument held as an asset by another party, particularly with regard to liquidity risk. For example, if the instrument is not traded in an active market, one would expect that the fair value of this instrument amongst those considering acquiring i as an asset would reflect this lack of liquidity – i.e. all things being equal, the fair value would be lower than an otherwise identical financial asset that is traded in an active market. (This statement is based on an understanding that valuation techniques of unlisted investments incorporate a discount attributable to the lack of liquidity.) The question is whether, in these circumstances, the fair value of this instrument amongst those considering acquiring it as a liability should simply be the same as the asset side? It is likely that this market is even less of an active market, and therefore it is contended that an increased discount should be applicable. This means that the market in which assets are traded is likely to be different to the market in which liabilities are traded. In addition, while the holder of an asset is unlikely to affect its fair value by assuming orderly disposals, the same does not apply to liabilities, where its fair value includes credit risk and therefore the credit risk of the holder of the liability would affect its fair value. It would be useful if the proposed standard addressed these issues, instead of it being included in the Basis for Conclusions.

Question 8

The exposure draft proposes that:

(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfill the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).

(b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75

Are these proposals appropriate? Why or why not?

In general we agree with the proposals, but request that the Board clarifies what factors other than credit risk may contribute to non-performance risk. We would also like, in this regard, to refer you to our separate comments provided on DP/2009/2 – *Credit Risk in Liability Measurement*.

Question 9

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions).

Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

The proposals are appropriate. We would, however, urge the Board to reconsider the requirements of IAS 39 in this regard as part of their review of that standard. Currently only IAS 39 and IAS 41 – *Biological Assets* ("IAS 41") specifically require initial measurement at fair value, and the requirements of these standards are not consistent as IAS 41 allows recognition of day one gains or losses irrespective of the source of fair value, while IAS 39 allows day one gains or losses to be recognised only to the extent that the fair value is based on market observable inputs. Accordingly, we believe that the Board should be aiming to apply a consistent approach to this issue across the various standards.

Question 10

The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples).

Is this proposed guidance appropriate and sufficient? Why or why not?

We believe that the proposed guidance is appropriate and sufficient. Paragraph 55 could clarify that the use of a mid-market price may not be appropriate if it is not most representative of fair value and that the last recorded transaction price in an active market may be most representative of fair value.

Paragraph C3(d) in Appendix C could clarify that the after-tax discount rate relates to taxes that the entity could be required to pay and not taxes that the shareholder might have to pay if receiving a dividend from or selling shares in that entity.

Question 11
The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

As described in Section 1 of this document, we do not support the proposals to amend IAS 34 to include all of the disclosures for fair value measurements.

We note that paragraph 57 requires the disclosure be provided by class of assets and liabilities. While IFRS 7 – *Financial Instruments: Disclosure* ("IFRS 7") provides specific guidance on how financial assets and liabilities are to be separated into classes, no such guidance exists for identifying classes of non-financial assets and liabilities. We recommend that the Exposure Draft be updated to include such guidance, or to include a reference to IFRS 7, in order to ensure that the same process used to identify classes of financial assets and liabilities is also used to identify classes of non-financial assets and liabilities.

Paragraph 57(e)(iii) requires disclosure of purchases, sales, issues and settlements in the reconciliation. We recommend that reclassifications (which would include reclassifications of financial assets in terms of the amendment to IAS 39) be added as a separate line in the reconciliation as these will affect the reconciliation in the same manner as purchases, sales, issues and settlements.

Paragraph 58 requires certain disclosures in respect of fair value measurement when the amount is not measured at fair value and the fair value is merely disclosed. We do not believe that such detail is relevant to the users of the financial statements when fair value is not the measurement attribute of the asset or liability. As mentioned in our comment letter on the Exposure Draft "IFRS 7 – *Improving Disclosures about Financial Instruments*", dated 15 December 2008, we believe the cost of obtaining such information will exceed the benefits to users and the usefulness of that information is questionable when the particular asset or liability is neither realised nor managed on a fair value basis. We note that the Board deleted that disclosure requirement from the final amendment to IFRS 7. Accordingly, we question why it is again considered relevant.

Question 12

The exposure draft differs from Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157.

Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

We do not believe that we are in a position to comment on the differences between the Exposure Draft and US Generally Accepted Accounting Practice (GAAP) as we are not regularly involved in applying or interpreting US GAAP.

Question 13

Do you have any other comments on the proposals in the exposure draft?

Other than the general comments that are included in Section 1 of this document, we do not have any additional comments on the Exposure Draft.

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