EFRAG
European Financial Reporting Advisory Group

DRAFT COMMENT LETTER

Comments should be submitted by 27 August 2010 to Commentletters@efrag.org

XX Month 2010

147. DSR-Sitzung am 26.07.2010

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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Dear Sir / Madam

Re: Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)* ('the ED'). This letter is submitted in EFRAG's capacity of contributing to IASB's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive interpretations/amendments on the issues.

EFRAG supports the proposed changes to the measurement uncertainty analysis disclosure. Specifically, EFRAG:

(a) welcomes the clarification that the analysis is focussed on unobservable inputs and by implication provides information about measurement uncertainty as opposed to market risk;

(b) supports the rationale for changing the wording "reasonably possible alternative assumptions" and the convergence objective it achieves; and

(c) agrees that correlation is an important factor in providing a meaningful analysis of measurement uncertainty where that correlation is relevant and significant.

Our response to the questions in the ED can be found in the appendix to this letter.

If you wish to discuss our comments further, please do not hesitate to contact Marius van Reenen or me.

Yours sincerely

Françoise Flores
EFRAG, Chair

Appendix
Notes for EFRAG's constituents

1 *The IASB published the ED Fair Value Measurement in May 2009, which proposed that the sensitivity analysis required by paragraph 27B (e) of IFRS 7 be moved to the IFRS on Fair Value.*

2 *This sensitivity analysis required an entity to disclose the effect of reasonably possible alternative assumptions on the fair value of a level three category financial instrument where that effect was significant. There was no explicit requirement to consider the effect of interrelation or correlation between inputs, although it did not preclude entities from doing so. Furthermore, it was not clear from the wording whether both observable and unobservable inputs were to be considered in the analysis.*

3 *The ED proposes that the requirement be changed as follows:*

a measurement uncertainty analysis for fair value measurements ~~in~~ categorised within Level 3~~,~~ of the fair value hierarchy. If changing one or more of the unobservable inputs used in a fair value measurement to a different amount that could have reasonably ~~possible alternative assumptions~~been used in the circumstances would ~~change fair value~~ have resulted in a significantly, ~~the~~ higher or lower fair value measurement, an entity shall ~~state that fact and~~ disclose the effect of using those ~~changes. The entity shall disclose~~ different amounts and how ~~the effect of a change to a reasonably possible alternative assumption was~~it calculated~~.~~ that effect. When preparing a measurement uncertainty analysis, an entity shall not take into account unobservable inputs that are associated with remote scenarios. An entity shall take into account the effect of correlation between unobservable inputs if such correlation is relevant when estimating the effect on the fair value measurement of using those different amounts. For t~~this~~that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, with respect to total equity.

Reasonably possible alternative assumptions

4 *The IASB proposes to change this wording because it had resulted in confusion in practice for entities applying IFRS 7 Financial Instruments: Disclosure. In addition, the term has a specific meaning in US GAAP that would preclude it from use in a common standard. The IASB further decided to clarify that this extended only to unobservable inputs. Changing observable inputs would not reflect measurement uncertainty but rather provide forward-looking information that is not the focus of this sensitivity analysis according to the IASB.*

Correlation between inputs

5 *The responses from users to the ED Fair Value Measurement indicated that the sensitivity analysis would be more useful if it required information about the correlation between inputs to be considered. Further outreach activities undertaken by the IASB staff support this. The IASB, therefore, concluded that the measurement uncertainty analysis is more useful if an entity takes into account the effects of correlation between unobservable inputs where such correlation is relevant.*

6 *Entities would not be required to disclose the degree of correlation.*

Scope

7 *The requirements of this paragraph will apply to all assets and liabilities measured at fair value unless a specific standard states that such a disclosure is not required for a particular asset or liability.*

Alignment with IAS 36 disclosures

8 *The consideration of correlation between inputs is not new in IFRSs. IAS 36 Impairment of Asset, for instance, already requires an entity to consider the effect of correlation between inputs in its sensitivity analysis where a CGU (or group of CGUs) includes goodwill or intangible assets with significant values.*

Appendix
EFRAG's response to the questions asked in the ED

Question 1

Are there circumstances in which taking into account the effect of the correlation between unobservable inputs (a) would not be operational (e.g. for cost-benefit reasons) or (b) would not be appropriate? If so, please describe those circumstances.

9 Although EFRAG is not aware of any specific instances where (a) or (b) would apply, such instances may exist. We note that the correlation between inputs itself may be a level 3 input and that it may be difficult to quantify. However, EFRAG does not believe that disclosure requirements should be limited to accommodate such instances.

Question to constituents

EFRAG *is not aware of any specific instances where (a) or (b) would apply and would like to know if constituents are aware of such instances.*

Question 2

If the effect of correlation between unobservable inputs were not required, would the measurement uncertainty analysis provide meaningful information? Why or why not?

10 In EFRAG's view, a sensitivity analysis that considers correlation between inputs provides more relevant information. Such a sensitivity analysis provides a realistic economic alternative value to the amount presented in the financial statements. EFRAG believes this is meaningful information.

Question 3

Are there alternative disclosures that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorised within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

11 EFRAG is not aware of any alternative disclosures that would achieve the objective of the ED.

Question to constituents

EFRAG would like to know constituents' suggestions on alternative disclosures that would provide information on measurement uncertainty for assets and liabilities measured at a fair value that relies on level 3 inputs.