

September 7, 2010

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

Dear Sirs,

**Measurement Uncertainty Analysis Disclosure  
For Fair Value Measurements**

This letter is the response of the staff of the Canadian Accounting Standards Board to the International Accounting Standards Board's Exposure Draft "Measurement Uncertainty Analysis Disclosure for Fair Value Measurements, Limited re-exposure of proposed disclosure" dated June 2010.

The staff of the Canadian Accounting Standards Board discussed these proposals with the Board's User Advisory Council. The views expressed in this letter take into account comments and perspectives raised by these stakeholders. However, they do not necessarily represent a common view of the AcSB, its Committees or staff. Views of the AcSB are only developed through due process.

We agree with the proposal that an entity should take into account and disclose the effect of correlation between unobservable inputs if such correlation is relevant when estimating the effect on a fair value measurement of a change in more than one unobservable input. We support the proposal because disclosing the higher and lower amount that a fair value measurement could

have reasonably been would make the measurement uncertainty in those point estimates more visible to users of financial statements. Requiring an entity to disclose inputs that have an interdependent relationship would also provide key insights into what inputs an entity's management thinks are interdependent. Such insights into fair value measurements are otherwise hard for users to learn.

Though we agree that the assessment of the effect of interdependent inputs on a fair value measurement and whether that effect is relevant is a matter of judgement, we think that an entity should be required to consider interdependent relationships commonly used by market participants. Such a requirement would be consistent with the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, paragraphs 48A and AG74, to use a "valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions."

We also recommend that the term "correlation" not be used because it is a statistical term. There is no statistical evidence that unobservable inputs are correlated. Using the term in the standard and illustrative example will result in the term being used in financial statements and without explanation. Users of financial statements will not know that the term is not being used in a statistical manner. Instead, correlation could be described as the interdependency between two unobservable inputs as we have done in this letter.

Below are our responses to the questions asked:

**Question 1** Are there circumstances in which taking into account the effect of the correlation between unobservable inputs (a) would not be operational (eg for cost-benefit reasons) or (b) would not be appropriate? If so, please describe those circumstances.

1. In our discussions, we did not identify any circumstances in which taking into the account the effect of interdependencies between unobservable inputs would not be operational or not appropriate.

**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?

2. If the effect of correlation between unobservable inputs were not required, the measurement uncertainty analysis would provide less meaningful information. As noted above, we think that disclosing the effect of interdependencies between unobservable inputs will provide key insights into what inputs an entity's management thinks are independent.

**Question 3 Alternatives to measurement uncertainty analysis** 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.

3. We did not identify any alternatives or improved disclosures that would be more cost-beneficial in providing users of financial statements with information about the measurement uncertainty inherent in level 3 fair value measurements.

We would be pleased to elaborate on any of our comments in more detail if you require. If so, please contact Peter Martin, Director Accounting Standards at +1 416 204-3276 (e-mail [peter.martin@cica.ca](mailto:peter.martin@cica.ca)) or Rebecca Villmann, Principal Accounting Standards at +1 416 204-3464 (e-mail [rebecca.villmann@cica.ca](mailto:rebecca.villmann@cica.ca)).

Yours truly,



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Director, Accounting Standards