CAISSE D'EPARGNE
CAISSE NATIONALE

Mrs Hilary Eastman

Chairman

International Accounting Standard Board

30 Cannon Street

London EC4M 6XH

Transmitted by email to: heastman@iasb.org

October 2nd, 2008

Comments in response to the draft document "IASB expert advisory panel: measuring and disclosing the fair value of financial instruments in markets that are no longer active"

Dear Mrs Eastman,

We are responding to your invitation to comment on the draft document "IASB expert advisory panel: measuring and disclosing the fair value of financial instruments in markets that are no longer active".

We recognize the efforts made by the working group to detail its views related to fair value measurement.

However, we believe the subjects developed in this paper do not deal with the real issue at stake with fair value accounting.

We believe this paper should rather have focused on the key issues related to fair value accounting:

- determining the transactions that should be accounted at fair value and those where amortised cost is more appropriate
- determining the circumstances where it is appropriate to remove instruments from the trading category (illiquid market…)
- more generally assessing the pro cyclical impact of IFRS and their links with prudential rules

50, avenue Pierre Mendès France
75201 Paris Cedex 13
Tél. : + 33 (0) 1 58 40 41 42
Fax : + 33 (0) 1 58 40 48 00

Caisse Nationale des
Caisses d'Epargne et de Prévoyance
Siège social : 5, rue Masseran
75007 Paris

Société anonyme à Directoire
et Conseil de Surveillance
Capital social de 6 217 647 131,50 euros
RCS Paris 383 680 220

In our opinion, fair value is only relevant for trading instruments and instruments managed internally on a fair value basis, as long as active markets do exist.
Applying fair value to instruments which are not trading instruments or to instruments which are both non-trading ones and which are not managed internally on a fair value basis, adds misleading information to the users of financial statements.

As far as fair value measurement is concerned, we question the use of the market price whenever a very limited volume of transactions takes place *(page 3: "As a result of the current liquidity crisis, many markets are experiencing lower transaction volumes, reduced transaction sizes or, in some cases, no observable trading activity for short periods. This does not necessarily mean that a market is no longer active. An active market is one in which transactions are taking place regularly on an arm's length basis. What is 'regularly occurring' is a matter of judgement and depends upon the facts and circumstances of each particular market.*").
Indeed, if the entity is no longer able to manage its position actively, because of illiquidity in the market, the instrument is in substance no longer a trading instrument.
Given this observation, we believe a reclassification should be allowed from the trading category to the AFS or amortised cost category.

Moreover, we believe that defining fair value in times of crisis as "*the price at which a transaction would take place in that instrument at the measurement date*" (page 3) is not correct. Indeed, except in distress cases, the transaction will NOT take place: unless the entity is facing bankruptcy (which would be contrary to the going concern assumption underlying accounting standards), it will not be forced to sell its assets in the near term if there is no satisfying price for this sale.

Accordingly, this entity should not be required to value its assets using prices if they are formed through rare, distress sales, entered into by entities which can not afford to hold these assets any longer because of liquidity shortage (even if we noted that the Board only gives the title of "distress sales" to very rare cases, i.e. close to liquidation cases).

In those circumstances, considering a price at which a transaction WOULD take place is pure theory, and does not provide relevant information to the user of financial statements. In these cases, the measurement should rather represent the value the management expects to recover on the asset in the medium or long term. It should take into account the business model management wishes to apply to this illiquid asset.

In this sense, we disagree with the draft document which states that in time of crisis, fundamental value is not consistent with the aim of fair value.
On the contrary, we believe fundamental value would give useful information to the user on the value the entity will be able to recover on the asset.

We regret that this paper, in spite of the current financial turmoil, persists in an extreme and theoretical approach of fair value measurement, and does not adopt a pragmatic and realistic view as the FASB / SEC recently did.

For example, we consider that the FASB / SEC document is very pragmatic in saying that *"Transactions in inactive markets may be inputs when measuring fair value, but would likely not be determinative".* On the contrary, the IASB draft document says that « page 4 *Regardless of the level of market activity, a current transaction price for the same or similar instrument normally provides the best evidence of fair value* ».

Besides, the FASB / SEC document gives examples of criteria that should be considered in determining if a market is inactive or not. These criteria are concrete and can really help entities to assess the liquidity level.

Regarding distress sales, the FASB / SEC document clarifies that orderly transactions involve *"market participants that are willing to transact* *and allows for adequate exposure to the market*", which is a new notion which can help in assessing distress sales. This document also recognizes that qualifying a distress sale is a matter of judgment, which allows a case by case analysis. On the contrary, the IASB draft document reinforces a theoretical approach which has not contributed during the current financial crisis to reflect in an understandable way the economic impacts of the transactions undertaken by reporting entities.

Yours sincerely

Eric Filliat

Directeur Réglementation et Comptabilités Groupe