



International Accounting Standards Board  
30 Cannon Street  
London EC4M 6 XH

17 April 2009

Dear Sir,

**Subject: FSP FAS 157-4**  
**“Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”**

The IVSC is pleased to provide its views on FSP FAS 157-4 issued on 9 April in response to the request by the IASB.

The governance structure of the IVSC includes two independent technical Boards – the **International Valuation Standards Board** and the **International Valuation Professional Board**. Responses to consultations issued by related standard setters and others are submitted on behalf of the IVSC by the International Valuation Professional Board.

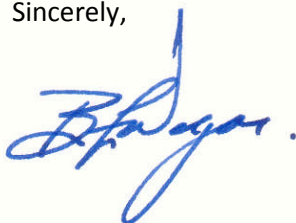
The IVSC had significant concerns with the original FASB proposal and we welcome most of the changes made in the final draft. However, we still have reservations for the following reasons:

- 1 The final FSP 157-4 now applies to ALL assets and liabilities. The draft applied specifically to financial assets only. For many asset classes the preconditions identified in para 12 of the FSP exist more often than not. This could lead to the objective of fair value measurement for non financial assets being undermined, notwithstanding the requirement for the entity to use the list to determine whether there has been a significant decrease in the level of activity for the asset or liability.
- 2 The report of the IASB Expert Advisory Panel concluded there was no ‘bright line’ between an active and inactive market, but by including the list of factors in para 12 the FSP would appear to be drawing such a line. The IVSC does not disagree with the content of the list in the FSP, and we acknowledge that the FSP does go on to confirm in para 15 that significant judgement is required to determine fair value where there has been a significant decrease in activity. However, we believe that there is an inherent contradiction between the presentation of a list of matters that an entity “should” evaluate to determine relative activity and the subsequent acknowledgement that significant judgement is required in the determination of fair value. Although the parameters for the exercise of judgement in any given situation can be discussed and illustrated by example, directing that it is to be applied in a certain way will encourage ‘box ticking’ and potentially compromise proper judgement.

- 3 The recognition by the FASB that it would have been wholly inappropriate to categorise all transactions within a market as being unrepresentative of fair value (as originally proposed) is a welcome reaffirmation that valuation should reflect market behaviour. Moreover, we noted the final draft did not change the objective of fair value measurements when market activity declines. Rather, it emphasizes that fair value represents an orderly transaction between market participants at the measurement date under **current** market conditions. Weighing the evidence presented by the market requires judgement however, and the FASB has discovered the difficulty that is inherent trying to direct how judgement is to be applied; rules that may appear rational and constructive in one context can be irrational and obstructive in another.

Fair value accounting relies on credible valuation processes. The valuation profession has long recognised that, since judgements are not facts, credibility depends as much on procedures that promote objectivity and transparency as it does on technique. The International Valuation Standards Council develops globally recognised protocols and guidance for valuation for a range of purposes, including valuations required by IFRS. IVSC looks forward to continuing its work with the IASB to ensure that its own pronouncements support financial reporting objectives and to improve the quality of reported valuations for the benefit of investors generally. We trust these comments are useful to you. If you wish to discuss any of them, please do not hesitate to contact the IVSC Executive Director – [ivsc@ivsc.org](mailto:ivsc@ivsc.org)

Sincerely,

A handwritten signature in blue ink, appearing to read "B. Wagar", with a stylized flourish extending upwards from the end of the signature.

Brad Wagar

**Chairman, International Valuation Professional Board**