



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores

May 16, 2006

Director, Accounting Standards
Canadian Accounting Standards Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2
Canada

Re: Discussion Paper: Measurement Bases for Financial Accounting – Measurement on Initial Recognition

Dear Director:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1 or SC1) thanks you for the opportunity to provide our thoughts regarding the Discussion Paper: *Measurement Bases for Financial Accounting – Measurement on Initial Recognition* (the Discussion Paper or the Paper).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

As we have previously expressed to the International Accounting Standards Board (IASB or the Board) in our comment letters on other projects, we believe continued movement to fair value as a measurement basis in accounting standards should take place with careful consideration and analysis. Thus, we are supportive of the Board's efforts to deliberate the various aspects of using fair value as a measurement basis. However, we believe the timing of the issuance of the Discussion Paper in light of other projects being undertaken by the IASB, the Financial Accounting Standards Board (FASB), or jointly by both Boards is confusing. The FASB is working towards a final standard to better define fair value and provide a framework for fair value measurement, and the IASB has added a project to its agenda to provide guidance on how entities should measure the fair value of assets and liabilities. The IASB's project is expected to use the FASB's final standard as its starting point. In addition, the FASB and the IASB are working jointly on phase two of their project on business combinations, which would

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91)
555.93.68
mail@oicv.iosco.org • www.iosco.org

require the use of fair value measurements in acquisitions. As is explained further below, it is unclear to us how the preliminary conclusions in the Discussion Paper about fair value as a measurement attribute will impact decisions in these and potentially other Board projects. Our comments below outline our concerns with both the overall direction and approach of the Discussion Paper and with certain of the conclusions reached. Given the nature of our concerns, this letter does not provide responses to the individual questions posed in the Discussion Paper.

General Comments

1. *Overall Purpose of the Paper* - Although we acknowledge the need for continued discussion and debate regarding fair value, the purpose for the Discussion Paper is unclear to us. Given recent efforts by both the IASB and the FASB in developing fair value measurement guidance, we are uncertain as to how the Discussion Paper fits with the overall approaches currently being taken by the respective Boards. We are especially concerned that issues raised in the Discussion Paper will somehow give rise to a broad reconsideration of fair value measurements which may conflict with the decisions made to date by both the IASB and FASB. If, on the other hand, the IASB believes it is both appropriate and necessary to reconsider all aspects of fair value, then we would recommend that the Board re-evaluate its plans to issue any fair value guidance in the near term.
2. *Conceptual Points Regarding Fair Value Measurements* - The Discussion Paper raises several conceptual points regarding both the use and measurement of fair value. However, the discussion regarding these various conceptual points is not sufficiently robust to support the conclusions reached. For instance, the Paper discusses the "reliability" notion, but fails to provide a balanced argument as to why concerns over reliability are outweighed by the benefits of relevance. As another example, on the issue of transaction costs, the Paper concludes, after only a brief discussion, that transaction costs are not part of the fair value of an asset or liability. Given the significance of these and other conceptual points and the potential impact if the Board were to adopt the conclusions reached in the Paper, Standing Committee No. 1 members are concerned with the lack of depth of analysis provided. We believe these conceptual issues are of the utmost importance to moving forward with fair value as a measurement basis in financial reporting, and thus a more thorough and balanced analysis is necessary.
3. *Market versus Entity-Specific Measurements* - The issue of whether market participant versus entity-specific assumptions should be used in measuring fair value is very relevant in today's financial reporting. Similar to the above comment, the Discussion Paper discusses the merits of using market participant assumptions but does not provide an adequate basis for conclusion as to why market participant assumptions are considered superior to entity-specific assumptions in measuring fair value. In particular, it is unclear what "conceptual analysis" was performed in reaching the conclusion in paragraph 128 of the Paper which states "...the market value measurement objective has important qualities that make it superior to an entity-specific measurement."

Additionally, Standing Committee No. 1 is concerned with whether market participant assumptions are, in fact, superior in measuring fair value in all instances. As such, we believe a more thorough analysis and discussion of the criteria is necessary to support the conclusions reached. An analysis of the merits of market participant versus entity-specific assumptions may be best accomplished not from an overall balance sheet perspective but rather by considering various types or classes of assets and liabilities since it may be determined that use of market participant assumptions may be more appropriate for certain types or classes of assets or liabilities but less appropriate for others.

4. *Measurement on Initial Recognition* - The Discussion Paper's scope is limited to the use of fair value measurements on initial recognition. Although Standing Committee No. 1 appreciates the need to limit the scope of the Paper in some regards given the broad range of issues related to fair value, we are concerned that by not considering re-measurement at this stage, potential conflicts between initial and "Day Two" fair value measurements may arise. We believe that careful consideration and analysis of initial and subsequent measurement issues will be needed in order to facilitate standard-setting and application of the conceptual framework.
5. *Acceptable Reliability Threshold* - The Discussion Paper puts forth a proposal that assets and liabilities be initially measured at fair value if fair value can be estimated with acceptable reliability. The term "acceptable reliability" is undefined within the Discussion Paper and elsewhere within accounting standards, and thus could likely be subject to varying interpretations. Additionally, introducing this threshold is contrary to the direction taken by the IASB in recent projects. If, based on the recommendations set forth in this Paper, the Board wishes to incorporate a reliability threshold in applying fair value measurements, we believe a broader reconsideration of the issue is warranted before making such a decision.
6. *Alternative Measures to Fair Value* - Throughout the Discussion Paper, various alternative bases to fair value are discussed, including historical cost, current cost, reproduction cost, replacement cost, net realizable value, value in use and deprival value. It is unclear why these bases are considered to be alternative measures to fair value since, in many instances, certain of these measures may in fact be acceptable measures of fair value under accounting literature today. For example, replacement cost may be considered the best evidence of fair value of a long-lived asset and historical cost may be considered fair value at the initial date of a transaction. Additionally, the Discussion Paper limited its consideration of these alternative bases to assets. We believe it is critical to discuss these concepts from both an asset as well as a liability perspective.

Given the current debate as to whether fair value should be based on an exit price notion, Standing Committee No. 1 questions whether the Discussion Paper considers these values, such as historical and current cost, to be alternatives to fair value since these measures may not be indicative of exit prices. Thus, it is unclear whether the Paper is supportive of the view that fair value is equivalent to exit price and, if so, the basis for the Paper's conclusion. If the Paper is supportive of this notion, then a more thorough discussion of this concept is necessary which may warrant consideration of the concepts from an asset-by-asset and liability-by-liability perspective.

7. *Broader Consideration of Valuation Matters* - Standing Committee No. 1 acknowledges the need for not only broader consideration of issues relating to fair value measurements from an accounting perspective, but also issues relating to fair value measurements from a valuation perspective. The Discussion Paper raises similar concerns and recommends that the IASB and other standard setters consider the International Valuation Standards Committee (IVSC) as a viable organization that may be able to fill the role of a valuation standard-setting body. Currently, we are aware that the valuation profession and individual valuation organizations face several key issues that require attention, including accreditation of practitioners, the development of professional standards for performing a valuation engagement that would apply to all practitioners, the need for quality review processes and a formal disciplinary mechanism for all practitioners, and the need for a body or mechanism to develop interpretive guidance on determining fair value. We believe these and other issues will inevitably shape the profession

and may impact the IASB's decision about the appropriate role that valuation organizations should play in the financial reporting standard-setting process. Although we believe the IVSC, as well as other valuation organizations, has and likely will continue to play a role in providing valuation-related guidance, we believe it is not appropriate for any financial reporting standard-setting body to align itself with one specific valuation organization at this time.

Rather, we recommend the IASB further develop its understanding of: i) the requirements to achieve quality valuations for financial reporting; and ii) the nature (including membership structures, historical area of focus and specialty, among other aspects) of all of the current valuation for financial reporting players/potential players, which may not necessarily be limited to accredited valuation organizations. The evaluation of these factors should be considered in determining how a valuation organization, such as the IVSC, can contribute to the IASB's standard-setting process.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

A handwritten signature in cursive script that reads "Scott Taub".

Scott A. Taub
Chairman, Standing Committee No. 1

cc: IASB