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

Dear Sir

Irish Bankers' Federation (IBF) is the leading representative body for the banking and financial services sector in Ireland. Membership comprises 60 financial institutions - including licensed domestic institutions and foreign banks operating in Ireland in the International Financial Services Centre (IFSC).

We appreciate the opportunity to comment on the Discussion Paper ('DP') on Measurement Bases for Financial Accounting – Measurement on Initial Recognition. We believe that effective consultation is essential to the development of world class accounting standards and it is essential that all stakeholders have the opportunity to analyse and assess the range of proposals mooted and to share views on these issues. We are pleased that the IASB requested the AcSB to undertake such a research project to begin to consider this controversial and currently very topical question. We at the IBF welcome this first step on a complex and lengthy road.

We support and fully agree with the general comments made by our sister association the, Federation Bancaire Europeene ('FBE') in their response to the DP.

In summary, we welcome the Canadian Accounting Standards Board ('AcSB') DP as a valuable contribution to the wider measurement debate. However, given the wide ranging list of possible measurement bases contained in the paper, we do not necessarily agree entirely with the conclusion reached by the paper that fair value is reasoned to be the most relevant measurement basis. We do not find the analysis persuasive in a number of key respects;

- **Comparsion of measurement bases**

While the paper ultimately expresses a preference for fair value the comparisons between fair value and the other measurement bases mentioned in the paper can only be



viewed as tentative in light of the current IASB work both on the conceptual framework generally and specifically in preparing an exposure draft dealing with fair value

measurement. The paper is not persuasive in its comparison of fair value with existing measurement bases. For example, it does not clearly articulate the problems, if any with current methods and therefore significant further research is required into the issues identified in the discussion paper.

- **Conceptual Framework**

The IASB is currently reviewing its conceptual framework and we see the discussion on measurement basis as inextricably linked to that debate. Considerable extra time needs to be taken to reflect on the various issues as well as analysis of the other measurement attributes mentioned before moving forward. Our view is that, in an ideal world, agreement on the conceptual framework should come first with the debate on what is Fair Value following. This is particularly important in the context of the requirements of users of financial statements and indeed the fundamental purpose of financial statements.

- **Capital Markets**

Our members already operate in a complex and competitive business environment and have a concern with the market view and definition of a perfect market expressed in the DP which emphasises the market value measurement objective in estimating Fair Value, that is, to reflect the price that an asset or a liability would be exchanged for in an open market. The basic presumption of most of the discussion in the paper seems to be that perfect markets (or at the very least, active and liquid markets that involve low transaction costs) exist for every asset and liability yet that is the exception rather than the norm. Perhaps the assumption made is that the most appropriate measure for any asset or liability is the “perfect market measure” of that asset or liability even if a perfect market does not actually exist for the item involved. Whatever the assumption is, it needs to be explained and justified persuasively, which it is not at present. The alternative is that the discussion should take into account the reality of the capital markets. Such a discussion would consider why differences between cost and Fair Value (as defined) arise and what those differences mean for the relevance of alternative measurement bases.

- **Initial measurement in isolation**

The paper focuses on identifying possible measurement bases on initial recognition. In our view this focus exclusively on initial measurement represents a serious weakness in the analysis because we think it is difficult, and probably inappropriate, to draw firm conclusions about initial measurement in isolation from subsequent measurement. Understandably adopting this course is probably inevitable as one, making such analysis necessarily needs to start somewhere. However, initial and subsequent measurement issues are closely related to one another and will, therefore, need to be dealt with in a unified at some stage.

In conclusion, we welcome the opportunity to comment on the paper but in the broader context of the current global adoption of IFRS. The proposals and supporting analysis



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contained in the DP are undoubtedly intended to help shape future global accounting standards and it seems to us that this paper is a first step in the measurement debate.

No doubt the concepts and analysis in respect of FV proposed in the discussion paper will be debated further amongst members of the IASB and its Board and also staff and members of other national standard setters. In so far as this debate takes place, the IBF feels that the DP has achieved its goal in this regard. The debate on measurement will, in our opinion, run for some time and cannot be separated from the wider conceptual framework debate.

Yours sincerely

Keith Gross
Adviser -