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MEMORANDUM

To

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

By email - ed.accounting@cica.ca

Date

19 May, 2006

From

Frans Samyn

Dear Sir,

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

We appreciate the opportunity to comment on the proposals in the condensed version of the above discussion paper. We note that the condensed version runs to some 69 pages and the full version 145 pages: in both cases only initial recognition is discussed.

Conceptual framework

The International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") are currently engaged in a convergence project that includes a conceptual framework. According to the IASB website, the *"objective of the project is to develop a common conceptual framework, i.e. a single framework that converges and improves upon the existing frameworks of both Boards"*. The proposals in the paper would appear to prejudge the revised conceptual framework.

Fair values generally

Paragraph 1.1 notes that this is an initial paper and that subsequent papers will deal with re-measurement and impairment. We do not believe that initial recognition should be addressed in isolation from the subsequent measurement requirements. Indeed, the subsequent measurement requirements could be considered the more important. It is not clear to us that a historic fair value number for an asset or liability would be of any more use to the users of the financial statements than a historic cost number.

We note too that, while the paper considers initial recognition of assets and liabilities, it does not address income and expense. Arguably, based on the approach in the paper, such transactions (which may not give rise to an initial asset or liability) should also be measured at fair value, with premiums and discounts recognised separately when the amounts charged or paid vary from market value.

There is also the question of assets and liabilities initially recognised and then derecognised within the same accounting period.

The paper assumes that market prices are superior. Paragraph 60 notes "*It is proposed that the market measurement objective has important qualities that make it superior to entity-specific measurement objectives, at least on initial recognition. In particular, it is proposed that the more relevant financial statement measurement objective on initial recognition for investors and other external users is that entities be measured against market values and subject to the discipline of the marketplace, rather than to entities' individual expectations."* We are concerned that the paper is footed on the basis of a full fair value approach to accounting. If this is the case, the consultation should not be on a piecemeal basis, but should address the totality of assets, liabilities, income and expenses. As noted above, taking one aspect alone, i.e. initial recognition - which is not generally seen to be a problem, does not further such a proposal. Nor is it clear how such a proposal can precede a revised conceptual framework.

Initial recognition

We are not convinced that initial recognition at historic cost of assets and liabilities generally (subject to fair values requirements for certain items, as specified in standards such as IAS 39 and IAS 41) is broken or needs fixing. The paper touches on the cost vs. benefit test. Will the benefits to users of the accounts outweigh the difficulties/cost in arriving at a "fair value" for many items? We don't believe the paper makes a strong argument in the affirmative.

In some instances, a historic cost number may be considered more useful. For assets and liabilities that are not remeasured to fair value at each reporting date, e.g. inventories, the actual historic cost (including transaction costs) may be more relevant as it gives a clearer indication of the management's stewardship of the resources expended to acquire the asset or represented by the liability. In the final analysis, users want to know whether the revenue generated exceeds the cost of the asset and the cost of adding value to it.

Fair values may be "easily" arrived at where markets exist for an asset or liability, such as financial instruments. However, a market as defined in paragraph 55 (i.e. "*A body of knowledgeable, willing, arm's length parties carrying out sufficiently extensive exchange transactions in an asset or liability to achieve its equilibrium price, reflecting the market expectation of earning or paying the market rate of return for commensurate risk on the measurement date.")* is unlikely to exist for many other assets.

The paper considers large blocks and volume discounts at paragraph 78 and notes *"an entity qualifying for fleet discounts would generally determine fair value using prices in the fleet market, even if it did not take advantage of that market."* This seems at odds with IAS 39 E.2.2 Fair value measurement: large holding, which notes *"Entity A cannot depart from the quoted market price solely because independent estimates indicate that Entity A would obtain a higher (or lower) price by selling the holding as a block."*

Conclusion

We have a number of reservations about the discussion paper. We believe these proposals should follow on from the development of a joint conceptual framework with the FASB. Therefore, the initial recognition project should not proceed in isolation. We have not, therefore, commented on the 19 detailed questions raised.

We would be happy to discuss our views with you in further detail. If you would like to discuss these comments, please contact Helen Thomson of BDO Global Coordination B.V. on +32 2 778 01 30.

Yours faithfully,
BDO Global Coordination B.V.

Frans Samyn
Chief Executive Officer