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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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RE: Measurement Bases

Dear Sir David:

Summary

While we appreciate the opportunity to comment on the Discussion Paper on a stand-alone basis, we believe it would be very helpful if the IASB were to provide clarity as to how it envisions the Discussion Paper interacting with (i.e. affecting or being affected by) other significant IASB project initiatives that are underway including, but not limited to; *The Conceptual Framework* (i.e. initial and subsequent measurement), *Revenue Recognition***,** *Reporting Comprehensive Income, Business Combinations Phase II* (i.e. initial measurement), *Insurance Contracts Phase II* (i.e. initial and subsequent measurement), *Financial Instruments Puttable at Fair Value*, and *Performance Reporting*. In addition to providing insights into the assumed interactions with existing IASB project initiatives, it would also be helpful to understand how the Discussion Paper is expected to interact with current projects underway at the Financial Accounting Standards Board, including but not limited to; *The Conceptual Framework* (i.e. initial and subsequent measurement), *Business Combinations* (i.e. initial measurement), *Fair Value Measurements* (i.e. initial and subsequent measurement), and *Fair Value Option* (i.e. initial and subsequent measurement).

The Measurement Bases for Financial Accounting – Measurement on Initial Recognition Discussion Paper is thorough, balanced, well thought out and well written and we commend the authors for their work. Although we generally agree with the proposed hierarchy, we do disagree with several of the conclusions reached in the paper and, in particular, the application of the concepts to insurance contracts. Our main disagreement with the paper is the presumption that fair value is the most relevant measurement bases for all assets and liabilities on initial measurement and that when assets and liabilities fail to have observable markets, the goal is to select a measurement bases that is most in line with the fair value measurement objective.

We believe that decision usefulness should be the primary focus of financial statements and therefore we believe that fair value or a proxy for fair value may not provide the most actionable information in all situations. We agree that for marketable securities, fair value provides the most relevant information, our concern rests with assets and liabilities that do not have observable markets and, therefore, have to be modeled. We take some comfort that the paper acknowledges that measurement substitutes should be clearly described as what they are and not called fair value. We would be more concerned if the paper espoused a view that all levels of the hierarchy are considered fair value, as we believe that it could lead to investor confusion and over-reliance as to the reliability of the amounts recorded in the financial statements. We are also concerned with the potential for using 'substitute for fair value' for labeling some of the Level 3 alternative measurements; however, if used there should be a requirement to disclose the measurement bases used. Using current cost (whether reproduction or replacement) or historical costs and labeling them as substitutes for fair value is difficult to understand and could be confusing for readers of the financial statements. It is also confusing to have other measurement bases in what is essentially a Fair Value hierarchy.

Our other significant concern in the discussion paper is the unit of account discussion. For insurance liabilities, aggregation of like exposures is essential in determining liabilities. Measuring an individual insurance contract at inception would not be statistically relevant due to the large standard deviation of one observation.

Below are our responses to the specific questions in the Discussion Paper.

Sincerely,

Douglas Wm. Barnert

Douglas Wm. Barnert
Executive Director
The Group of North American Insurance Enterprises

DWB:cll

Q1. Do you agree that the list of identified possible measurement bases (see paragraphs 33-51 of the condensed version and paragraphs 69-74 of the main discussion paper) sets out the bases that should be considered? If not, please indicate and explain any changes that you would make.

Yes, we agree that the list of identified possible measurement bases sets out the bases that should be considered in the overall measurement bases project, but not initial recognition since several methods appear to assume that the asset or liability is already recorded in the financial statements. We also believe that there are significant overlaps between the methods and several that should not be deliberated at length (e.g. deprival value and value in use). The deprival value of an asset, at least in theory, could exceed the assets replacement cost (asset has more value to you than anyone else), so the definition should not have constraints; however without the constraints the method would not provide useful information to the reader of the financial statements and should be discarded. Also, we believe that value in use and current cost could result in the same value. We would think that in most cases the current cost of an asset would factor in the present value of expected cash flows plus residual value, if applicable.

Q2. Do you agree with the working terms and definitions, and supporting interpretations, of each of the identified measurement bases (see paragraphs 33-51 of the condensed version and paragraphs 77-96 of the main discussion paper)? If not, please explain what changes you would make. In particular, do you have any comments on the term "fair value" and its definition (in light of the discussion in paragraphs 46-48 of the condensed version and paragraphs 88-93 of the main discussion paper)?

We have several concerns with the definitions. First, for *Historical Cost*, by eliminating the phrase "… or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents to be paid to satisfy the liability in the normal course of business" from the IASB definition, several types of liabilities would fall out of the definition. For instance, any liability where consideration was not received could not be measured at *Historical Cost*. We believe that under the current guidance, several types of liabilities do not require expected value measurement techniques and would be more akin to *Historical Cost*. For instance Contingent Liabilities under IAS 37 (and FAS 5) are based more on a best estimate criteria if probable and measurable. Income tax estimates are also prepared on a best estimate basis and in the United States guaranty fund assessments for insurers are calculated on a best estimate basis. The phrase expected value measurement to us conveys more of present valuing (probability weighting) technique rather than a best estimate. Another concern we have with *Historical Cost* is that it is a confusing term on initial recognition. For instance, if two parties own like-kind properties that were purchased below current market prices and they decide to trade the properties, under this definition they would have gains on the trade. The term *Historical Cost* would convey a carryover basis in this situation consistent with the superseded APB 29, instead of a step-up.

Our second comment is that the definition of "fair value" should include "where neither party is in distress" or a similar phrase after arm's length transaction. Although this is discussed in paragraph 91 of the main version in the discussion of a market section, for clarity purposes it should be included in the fair value definition. We note and agree that the definition includes the requirement that the parties be able to conduct a transaction. This is an important distinction for insurance liabilities where the insurers are legally unable, other than through the sale of the company, to layoff their liabilities. We have also proposed adding this requirement to the definition of a market in Question 4b.

Q3. It is proposed that there are two fundamental sources of differences between the identified bases for measuring assets and liabilities on initial recognition:

a. market versus entity-specific measurement objectives, and

b. differences in defining the value-affecting properties of assets and liabilities.

(See paragraph 52 of the condensed version and paragraph 97 of the main discussion paper.) This proposal and its conceptual implications are the subject of chapters 4 and 5. Do you agree that these are the fundamental sources of differences between asset and liability measurement bases on initial recognition? If not, please indicate the fundamental sources of differences you have identified, and provide the basic reasons for your views. For any different fundamental sources you have identified, please indicate how these might be examined and tested.

We disagree that there is only one fair value for a financial instrument on initial recognition. Individual items may be bought and sold in different markets for different prices at the same time. One example of this is a common derivatives trade that Corporate Treasurers use when issuing callable debt.

The corporate debt can be deconstructed into a credit-risky fixed deposit and a bond call option. The savvy Treasurer will compare the value of the call option they own, implicit in the yield the market assigns to their debt, to the price of free-standing swap options. Typically the call option in the corporate debt is underpriced relative to the free-standing option, so the Treasurer may choose to sell swaptions at the same time as issuing callable debt. Same options, same time, different prices.

Why is this so? Are the market participants purchasing corporate debt the same as the market participants trading swap options? The basic reason is that there is a natural imbalance between buyers and sellers of options. More people want to buy protection than want to sell protection. The business of option sellers is book running - that is to say, managing futures positions to offset the option risk and earn a profit in competition. Under the assumption of perfect markets, there would be no need for such financial intermediaries. Therefore it is no surprise that the perfect markets assumption may hinder rather than help develop an accounting standard for loans, leases, insurance contracts and pensions.

Q4. The paper analyzes the market value measurement objective and the essential properties of market value.

a. Do you believe that the paper has reasonably defined the market value objective and the essential properties of market value for financial statement measurement purposes (see paragraphs 54-56 and 105-112 of the condensed version and paragraphs 99-110 and 236-241 of the main discussion paper)? If not, please explain why not, and what changes you would propose, or different or additional considerations that you think need to be addressed.

In general we believe the paper has reasonably defined market value and the premise of the objective. However, the paper inadequately discusses the impact of arbitrage on equilibrium as several studies of arbitrage activity suggest that the impact of arbitrage activity is not perfect due to certain types of constraints on the arbitrageurs. In Russell and Torbey's *The Efficient Market Hypothesis on Trial: A Survey*_, they state that a study by Shleifer and Summers asserts "that the assumption of perfect arbitrage made under the efficient market hypothesis is not realistic." Additionally, in the Shleifer and Vishny article, *The Limits of Arbitrage*_, they found "that the textbook description does not describe realistic arbitrage trades..." They found that many real world situations contain arbitrage risk and require capital to perform the trades, which limit the effectiveness of arbitrage activities. If these and other studies are accurate, which seems likely, then arbitrage activity would not bring about price equilibrium as assumed in the paper. This along with the known issues discussed in the paper, such as irrational behavior and inefficient markets, indicate that although a market price may be the most appropriate price to use in financial reporting for financial assets and liabilities, it is not a perfect indicator of fair value. If markets with observable prices are not a perfect indicator of fair value then the extension of the concept to assets and liabilities with non-observable prices should proceed very cautiously or the reliability and relevance of financial statements may be called into question.

b. Do you agree with the proposed definition of "market" (see paragraphs 55-56 of the condensed version and paragraphs 107-110 of the main discussion paper)? If not, please explain why you disagree, and indicate any changes you would make and any issues that you believe should be given additional consideration.

Considering the imperfect nature of most markets and the inclusion of irrational investors we believe that a more accurate definition might be "*A body of knowledgeable, willing, able, arm's length parties carrying out sufficiently extensive exchange transactions in an asset or liability to achieve a price which reflects the market's expectations on the measurement date*". We believe that assuming all participants in the process of setting the market price understand the risk/reward trade-off is probably not an accurate assumption and is probably not necessary in the definition. The proposed revised definition achieves the same result without including language that some may view as inaccurate. We have also added 'able' to the definition since we believe that in order for there to be a market, there need to be participants that can actually transact. As discussed in our response to Question 2, this is an important distinction for insurance contracts which are non-transferable. Additionally, considering this might be a global document, more guidance should be included in any final document to more concretely define what constitutes "sufficiently extensive exchange transactions". Also, as discussed above, since arbitrageur activity may not lead to price equilibrium we suggest removing it. Once again its removal should not impact the intent of the definition.

c. ***Do you agree with the fair value measurement objective as proposed, and its derivation from the market value measurement objective (see paragraph 102 of the condensed version and paragraphs 111, 228 and 229 of the main discussion paper)?***

Subject to our comments above, we agree with the fair value measurement objective as discussed in the paper when assets and liabilities have observable market prices. For assets and liabilities where there are not observable prices or the market is thin, we are skeptical that estimating the exchange price will always result in the most appropriate value. We believe that the facts and circumstances of the assets and liabilities should be considered when determining whether this estimation process is appropriate.

Q5. Do you agree with the definition and discussion of entity-specific measurement objectives (see paragraph 57 of the condensed version and paragraphs 112-116 of the main discussion paper) and their relationship to management intentions (see paragraph 58 of the condensed version and paragraphs 117-121 of the main discussion paper)? If not, please explain why you disagree.

For the most part we agree with the discussion for certain assets and liabilities; however, we disagree with the presumption in paragraph 112 that there is a choice between market value measurement and entity-specific measurement for insurance liabilities. This assumes that a market exists for insurance liabilities and that under current accounting guidance, the entity selects its own assumptions instead of utilizing the market assumptions. For insurance liabilities, which are based on sound actuarial guidance, many of the inputs, such as morbidity, mortality, persistency and lapse rates can not be derived by a market. Additionally, the entity specific information used in these assumptions might be supported by thousands of data points, making it more reliable than the market price of assets or liabilities on thinly traded markets.

We also disagree with the blanket assertion in the paragraphs that market value is always more relevant than entity-specific measurement. We agree that where there is a deep market that market value should be used exclusively. Where markets are thin or where there are no markets, entity-specific measurements might yield a superior value. For instance, the accounting for below investment grade bonds in U.S. GAAP is dictated by EITF 99-20 which requires the use of discounted cash flows. Many of these securities do have observable market prices, which may or may not meet the 'extensive exchange transactions' portion of the market definition. We believe the entity's valuation might be a better indicator of value than the quoted market price.

Q6. Do you agree with the comparison of market and entity-specific measurement objectives (see paragraph 59 of the condensed version and paragraph 122 of the main discussion paper) and with the proposed conclusion that the market value measurement objective has important qualities that make it more relevant than entity-specific measurement objectives for assets and liabilities on initial recognition (see paragraphs 60-61 of the condensed version and paragraphs 123-129 of the main discussion paper)? If not, please explain your views.

We agree with the comparison of market and entity-specific measurement subject to our previous comments on market value measurement. We disagree with the assertion that market value is more relevant in all cases, we believe that paragraph 124 of the main paper should have a subparagraph c. which would cover assets and liabilities where there is not a market price or where the entities assumptions can not be correlated to a market.

Q7.

a. It is reasoned that there can be only one market (fair) value for an asset or liability on a measurement date (see paragraph 62 of the condensed version and paragraphs 131-138 of the main discussion paper). Do you agree with this conclusion? If not, please explain why you disagree.

Although we disagree with this assertion for marketable securities (see our response to Question 3), we agree with the assertion that there can only be one market on the initial measurement date for insurance contracts. We believe that the notion of current entry and current exit value should be eliminated from the discussion of insurance contract accounting since the terms are confusing and irrelevant. Insurance contracts are sold and settled directly with the contract holders and there are generally not third party transactions due to transfer restrictions included in the contracts, therefore the only relevant market would be the one in which the insurer and policyholder transact.

b. It is proposed that differences between apparent market values for seemingly identical assets or liabilities on initial recognition may be attributable to:

i. ***differences between the value-affecting properties of assets or liabilities traded in different markets, or***

ii. ***entity-specific charges or credits.***

(See paragraph 63 of the condensed version and paragraphs 131-138 of the main discussion paper). However, the paper notes the existence of multiple markets for some assets and liabilities, and the possibility that they may be due to market access restrictions that require further investigation (see paragraphs 74-82 of the condensed version and paragraphs 95-109 of the main discussion paper).

Do you agree with these proposals, within the caveats and discussion presented? If not, please explain why you disagree.

We agree that there can be differences between the market value of the same asset or liability. For most assets, especially marketable securities, we believe the differences in market value would be caused by information inequities or market restrictions. In theory arbitrageurs would only allow this to happen when the price differences are not greater than the transaction costs. We believe that this should not be a serious problem for market value measurement.

Q8. Do you agree that a promise to pay has the same fair value on initial recognition whether it is an asset or a liability, and that the credit risk associated with a promise to pay enters into the determination of that fair value with the same effect whether it is an asset or liability (see paragraph 65 of the condensed version and paragraphs 142-147 of the main discussion paper)? If you do not agree, please explain the basis for your disagreement.

No, the following factors can cause the fair value of the promise to pay to be asymmetrical.

a. Fair value will be different if the fair value is calculated in two different reference markets (retail vs. wholesale).
b. Fair value could be different if one party views the asset/liability as a stand alone asset or liability and the other party views the asset/liability as part of a portfolio (unit of account issue). For example, an insurance company would view the issuance of an individual contract as part of a portfolio of exposures and value accordingly, whereas the policyholder may value the contract significantly different due to the expectation of the benefits (marginal utility) to be received through the contract.
c. Fair value may also diverge after initial measurement due to contractual rights. For instance, if a company has issued non-callable debt that is trading below par due to a credit downgrade or a significant widening of their credit spread, the Company most likely will be unable, except in extreme circumstances, to monetize the difference between par and the current value of the debt due to the non-callable nature of the debt. In order to transfer/layoff the liability, the investors would require a premium to release the entity from its obligation.

   Additionally, assuming the market price of debt is also the amount an entity could layoff their liability, assumes that the market has incorporated the entity's desire to layoff their liability. Since most market transactions would only incorporate this information if it were public then it is difficult to understand how the market price would be a proxy for the layoff amount.

d. One can argue that credit risk should be the same for the asset/liability side in a promise to pay, and especially at initial measurement in observable markets. However we believe applying an entity's credit standing in the valuation of insurance contracts is not appropriate for the following reasons:
   i. Insurance regulation and other mechanisms in most jurisdictions guarantee payments to policyholders. Thus, a policyholder, in general, would not accept less than the contractual, or face, amount owed.

   ii. The insurance industry guarantee mechanisms provide greater security to policyholders than bondholders or other debt holders. Accordingly, the credit spread on a company's debt would not be an appropriate indicator of the credit risk, if any, associated with policyholder liabilities.

Q9. The paper makes the following proposals with respect to defining the unit of account of the asset or liability to be measured on initial recognition:

a. The appropriate individual item or portfolio unit of account on initial recognition is generally the unit of account in which the reporting entity has acquired the asset or incurred the liability (see paragraphs 67-70 of the condensed version and paragraphs 149-154 of the main discussion paper).

b. The appropriate level of aggregation for non-contractual assets on initial recognition is the lowest level of aggregation at which an identifiable asset is ready to contribute to the generation of future cash flows through its sale or use (see paragraphs 71-73 of the condensed version and paragraphs 157-161 of the main discussion paper).

Do you agree with these proposals within the caveats and discussion presented? If not, please explain why, and in what respects, you disagree.

We disagree for insurance contracts. It is not appropriate to measure insurance liabilities on an individual contract basis, unless the contract itself is a portfolio of exposures, since actuarial methodologies only apply when the law of large numbers can be invoked. For instance, determining the fair value of an insurance contract based on weighted average expected cash flows would not be statistically reliable since the expected deviation for the one observation would be extremely significant. Additionally, insurers would not be able to charge the prices they charge for most insurance policies due to the increased cost and uncertainty of one policy.

Q10. It is suggested that, in many cases, the best market source on initial recognition is the market in which the asset or liability being measured was acquired or issued. However, some significant situations are noted in which a different source may be appropriate, and research is proposed into possible multiple markets (see paragraphs 75-82 of the condensed version and paragraphs 162-182 of the main discussion paper). Do you

agree that the paper provides a reasonable analysis of market sources and their implications on initial recognition? If not, please provide reasons for disagreeing, and indicate any additional analysis or research you would think should be carried out.

Yes, we agree with the analysis and agree with the need for further research. Please see our responses to Questions 3 and 7.

Q11. The paper concludes that transaction costs, as defined, are not part of the fair value of an asset or liability on initial recognition (see paragraphs 86-87 of the condensed version and paragraphs 193-200 of the main discussion paper). Do you agree with the proposed definition of transaction costs? Do you agree with the above conclusion? If you disagree, please explain your reasons and what you believe the implications of your different view would be for fair value measurement of assets and liabilities on initial recognition.

We believe further research should occur regarding transaction costs since the impact to the current accounting literature could be significant. The research would have to clarify what is meant by recoverable in the marketplace. We would be very concerned in regards to the deferred acquisition costs insurers incur to write new business. Some have suggested that these costs would not meet the definition of an asset, however we believe that if a company were to sell one of their legal writing entities, they would be reimbursed for these costs because the buyer would not have to incur these costs to acquire the policies. Today such value is normally reflected in a VOBA asset. Additionally, if the exit value concept is used for liabilities, then inherent in a legal layoff approach are transaction costs to layoff the liability. For instance, if an insurer uses a reinsurer to lay off some of its risk and the reinsurance market were assumed to be the reference market, the premium paid represents uncertainty of the reinsurer as well as incremental costs attributable to the transaction. The exclusion of transaction costs appears to conflict with the notion of exit value for insurance contracts. Please note that we are pointing out a potential conflict and not advocating exit value, which we believe to be irrelevant for insurance contracts.

Q12. Do you agree with the proposal that, when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these bases should be selected (see paragraph 89 of the condensed version and paragraph 202 of the main discussion paper)? If not, please explain why you disagree, and indicate how you would settle trade-offs between the relevance and reliability of alternative measurement bases.

Our concern with this guidance is that we are unsure what constitutes an acceptable level of reliability or who would determine what it means. We would also be concerned how one could audit an 'acceptable level of reliability' since it would appear to be in the eye of the beholder. We believe which attribute is more important for financial reporting is a difficult question, with valid arguments on both sides and will have to be addressed in the Board's Conceptual Framework project prior to providing new guidance on fair value measurement.

Q13. Do you agree with the two proposed sources of limitations on measurement reliability — estimation uncertainty and economic indeterminacy — and supporting discussion (see paragraphs 90-100 of the condensed version and paragraphs 204-216 of the main discussion paper)? If not, please explain your view.

Yes, we agree with the two proposed sources of limitations on measurement reliability. However, we disagree with the concept that actual outcomes should not be an indicator of the reliability of the prior estimates. If estimates are consistently significantly off from actual outcomes it may suggest that the information available at any point in time may not be sufficient to produce reliable estimates. This calls into question whether the measurement basis represents what it purports to represent.

We are also concerned with paragraph 219 of the discussion paper which suggests that "information about measurement uncertainty should be considered an essential element of measurement reporting in financial accounting". On the surface this appears to be a reasonable solution; however this assumes that the readers of the financial statements perform a detailed review of all the notes and have the quantitative skills to understand the disclosure. If readers fail to read or understand notes on measurement uncertainties or rely solely on the financial statements, they might believe the financial statements are more precise than they actually are because the assets and liability are at 'fair value'. Additionally, paragraph 217 states, "…precise statistical quantification of ranges of uncertainty is rarely possible in financial accounting" which indicates that it might not be possible to adequately quantify the measurement risk for the readers which could lead to a misunderstanding of the financial statements.

Q14. Do you agree that fair value is the most relevant measure of assets and liabilities on initial recognition of assets and liabilities, and therefore should be used when it can be estimated with acceptable reliability (see analyses of fair value and alternative bases in chapter 7, and discussion of measurement date on initial recognition in paragraphs 179-180 of the condensed version and paragraphs 410-415 of the main discussion paper)? If not, please explain why.

No, we believe it depends on the asset and liability and how fair value is measured. For Marketable Securities we completely agree with fair value as the most relevant measurement basis. We are more troubled by assets and liabilities where a hypothetical market would have to be assumed to estimate fair value or in markets that are less efficient than bond or stock markets. We are also confused by what is meant by fair value in the question. As previously stated, if the proposed hierarchy is considered a fair value hierarchy which it appears the paper presumes, then we believe that Level 3 would create confusion and not clarification.

We also believe that the use of the asset or liability should be considered. For instance, if a company develops a building outside of a large city for relocation of its home office, under the proposed guidance the building would most likely be impaired on day 1 due to the market value being significantly less than the cost to build. This would be due to the lack of a comparable buildings and lack of demand due to few employers of comparable size in the area. The company would take a loss even though it could demonstrate a significant present value savings on the development project (cost to operate in a small town versus a large city). Should the market price override the net present value of the building or should the use of the building factor into its recognition? It does not seem proper to record impairments on a new home office due to the type of real estate market when the company has determined that the building will have a positive net present value. Constructing a home office is significantly different than purchasing an investment property. One is for long-term use whereas the other is a total return investment and should be at fair value and we believe the financial statements should reflect the different uses.

Q15. Do you agree that fair value is not capable of reliable estimation in some common situations on initial recognition (see paragraph 104 of the condensed version and paragraphs 232-277 of the main discussion paper)? More specifically, do you agree that:

a. A single transaction exchange price should not be accepted to be equal to fair value unless there is persuasive evidence that it is (see paragraphs 106-114 of the condensed version and paragraphs 243-252 of the main discussion paper), and

b. A measurement model or technique cannot be considered to achieve a reliable estimation of the fair value of an asset or liability when the estimate depends significantly on entity-specific expectations that cannot be demonstrated to be consistent with market expectations (see paragraphs 115-118 of the condensed version and paragraphs 263-268 of the main discussion paper)?

Please provide explanations for your views on these questions if they differ significantly from the conclusions and supporting arguments presented in the paper.

Yes, we generally agree with the discussion in the paper although we note that the conclusion reached regarding a single exchange transaction price does not appear consistent with the Boards tentative conclusions on the Business Combinations project.

Q16. Do you agree with the paper's analyses and conclusions with respect to the comparative relevance and reliability of:

a. historical cost (see paragraphs 120-137 of the condensed version and paragraphs 281-319 of the main discussion paper);

b. current cost - reproduction cost and replacement cost (see paragraphs 138-154 of the condensed version and paragraphs 320-361 of the main discussion paper);

c. ***net realizable value (see paragraphs 155-161 of the condensed version and paragraphs 362-375 of the main discussion paper);***

d. ***value in use (see paragraphs 162-169 of the condensed version and paragraphs 376-392 of the main discussion paper); and***

e. ***deprival value (see paragraphs 170-178 of the condensed version and paragraphs 393-409 of the main discussion paper)?***

f. ***Please provide reasons for any disagreements, and any advice you may have as to additional analysis or research that you believe should be carried out.***

No, as stated previously, we disagree with the overriding presumption that fair value should be what we strive for in all situations. We believe that when fair value is the goal for all assets and liabilities there can be some unintended consequences. We also believe that is confusing to use any of the measurement basis as a substitute for fair value, since these bases are well established and well understood and do not attempt to be fair value.

Q17. The paper discusses substitutes for fair value when the fair value of an asset or liability cannot be reliably estimated on initial recognition. Do you agree that, when other measurement bases are used as substitutes for fair value on initial recognition, they should be applied on bases as consistent as possible with the fair value measurement objective (see paragraph 186 of the condensed version and paragraph 417 of the main discussion paper)? If not, please explain why.

No, we disagree that the other measurement bases should be considered as a proxy for fair value. In our opinion, either a valuation is fair value or it is not, labeling a measurement bases as something (substitute for fair value) it is not will lead to confusion, as these other bases have been used for quite a while and are well understood.

Q18. Do you agree with the proposed hierarchy for the measurement of assets and liabilities on initial recognition (see chapter 8)? If not, please explain your reasons for disagreeing and what alternatives you might propose.

No, we believe that mixing a measurement hierarchy with a fair value hierarchy is confusing. For instance, in our opinion an entity specific value which would reside in Level 4 could be a much better indicator of fair value in some instances than using one of the accepted Level 3 bases which are not intended to measure fair value.

Q19. Do you have comments on any other issues or proposals, including the proposals for further research (see paragraph 189 of the condensed version and paragraph 441 of the main discussion paper)? If so, please provide them.

We do not have any other comments.

_ Russell, Philip S and Torbey, Violet M. (2002), “The Efficient Market Hypothesis on Trial: A Survey,” *Business Quest, A journal of applied topics in business and economics*

_ Shleifer, Andrei and Vishny, Robert (1997), “The Limits of Arbitrage,” *The Journal of Finance, Vol. 52. No1 (March 1997), 35-55*