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Mr Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
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Email: ifric@iasb.org

15 December 2008

Dear Mr Garnett,

Tentative agenda decision: IAS 39 *Financial Instruments: Recognition and Measurement* – Fair value measurements of financial instruments in inactive markets: determining the discount rate

Deloitte Touche Tohmatsu is pleased to respond to the IFRIC's publication in the November 2008 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for an Interpretation of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") with respect to providing guidance on how to determine the discount rate for financial instruments when markets are inactive.

We agree with the IFRIC's decision not to take this item onto its agenda. Overall, we believe any approach suggesting adjustments that are not in line with a market participant's view do not meet the objective of fair value measurement and hence, are not in line with the principles of IAS 39. We believe the approach presented in the submission is flawed for a number of reasons, as set out below:

- the submission assumes that once a market is considered inactive, transactions taking place in the respective market are not indicative of fair value. As stated in paragraphs 17 et seqq in the IASB's Experts Advisory Panel document *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* transactions that are not distressed occurring in inactive markets should not be ignored as they are likely to reflect current market conditions.
- the submission refers to IAS 39.AG78 to justify a constant liquidity spread. As stated in both the submission and IAS 39.AG78 an entity can only assume a constant liquidity spread (or other component of the discount rate) if the information is not available and no evidence exists that the input has changed. We believe it would be very difficult for an entity to represent both that the information is not available and the input has not changed, particularly in markets that have previously been active.

- the submission proposes an upper threshold for any change in the liquidity spread based on the liquidity risk adjustments for non-tradeable loans or receivables. We note that the submission does not contain a rationale for this conclusion. We believe that this cannot be corroborated by any (authoritative or educational) guidance from the IASB or IASCF.
- the submission states that fair value measurement has an implicit notion of rationality and that markets in the current economic environment are irrational. We believe it would be difficult to determine whether and to what degree a change in an input is caused by market irrationalities as this would require management to apply judgement in what is considered rational. This concept is both difficult to make operational and would assume that management has superior knowledge to the market.
- the submission argues that the fair value measurement objective mandates adjustments to inputs to be made if markets conditions are considered not normal. We note that even when markets are in stress or inactive an entity cannot conclude that all transactions within the market concerned are distressed by default as stated in the Experts Advisory Panels document in paragraph 22.

We also note that the submission did not meet the criteria set out in paragraph 19 of the *Due Process Handbook for the IFRIC* as it neither presented alternative accounting responses nor an evaluation of the issue against the agenda criteria. We suggest that the IFRIC emphasise in the final agenda decision that submissions are expected to meet certain criteria in order to allow the IFRIC to address the issue both effectively and efficiently.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0)20 7007 0907.

Yours sincerely,

Ken Wild
Global IFRS Leader