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Our ref MV/288

Contact Mark Vaessen
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16 May 2006

Dear Sir

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

We appreciate the opportunity to comment on the Canadian Accounting Standards Board's Discussion Paper *Measurement Bases for Financial Accounting – Measurement on Initial Recognition*. This letter expresses views of the international network of KPMG member firms.

In our view, any current project dealing with the measurement of elements of the financial statements in advance of the joint conceptual framework project of the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board is premature for the reasons explained below.

Phase A of the joint conceptual framework project deals with the objectives and qualitative characteristics of financial reports; an exposure draft is expected shortly. Phase B of the project deals with the elements of financial statements, recognition and measurement attributes; a consultative document is not expected until the second quarter of 2007. The outcome of these phases of the project will provide critical input for phase C of the project, which deals with initial and subsequent measurement. In respect of phase C, the Boards have not yet published an expected timetable.

In its introduction, the Discussion Paper includes a purpose of providing the IASB and national standard setters with "a sound conceptual basis for: (a) revising and expanding the measurement aspects of their conceptual frameworks..." In our view, this purpose cannot be fulfilled without making assumptions about the outcome of phases A and B of the conceptual framework project. It appears to us that the Discussion Paper does indeed pre-empt the outcome of these phases, by concluding that fair value is the most appropriate measurement model upon initial recognition. In addition, in our view measurement cannot be viewed in isolation, but should be seen in a larger context together with the impact on earnings and presentation of the performance statement(s).

For the above reasons we believe that the IASB should await the outcome of phases A and B of the joint conceptual framework project, which will provide direction for the subsequent phase of the project on measurement. As part of this process, we expect to be provided with

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the opportunity to contribute to the debate on the most appropriate measurement model for the different elements of the financial statements, both upon initial recognition and subsequently. This comment should not be seen as an indication that we are opposed to fair value as a measurement model, but rather that the fundamental issues underlying the various measurement models have not yet been debated.

As a result of the views expressed above, we believe that it would be inappropriate for us to respond at this time to the detailed questions asked in the Discussion Paper.

Please contact Mark Vaessen at +44 (0)20 7694 8089 if you wish to discuss any of the issues raised in this letter.

Yours faithfully



KPMG IFRG Limited