

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

Paul Chisnall
Executive Director

Direct Line: 020 7216 8865
E-mail: paul.chisnall@bba.org.uk

By e-mail: ed.accounting@cica.ca

31 May 2006

Dear Sir

Measurement Bases for Financial Accounting - Measurement on Initial Recognition

The British Bankers' Association is the principal trade association for banks operating in the United Kingdom. Our members comprise some 260 domestic and international members. We welcome the opportunity to comment on your discussion paper.

We have no difficulty with the IASB (and FASB) reviewing their conceptual frameworks and would agree that a review of measurement issues ought to form part of that exercise. We are not sure, however, how this paper fits in with the overall review of the conceptual framework. In our view, it is not possible to decide on measurement on initial recognition in isolation from both a broad understanding of the purpose of financial statements and more detailed considerations of measurement after initial recognition. Therefore, while this paper is a useful contribution to the debate, we counsel against any conclusions on measurement being drawn from this paper.

We believe that it is inappropriate to consider measurement issues from the perspective of initial recognition only. If fair value is defined based on a theoretical average market value, it will often be different from the initial transaction price. It has not been demonstrated that the difference has useful and relevant information content and certainly not that the benefits of recognising assets and liabilities at initial fair value will exceed the costs of doing so. There are assets and liabilities for which subsequent measurement at fair value is clearly the appropriate measurement basis; there are others for which historical cost is a more appropriate basis. Furthermore, the full range of factors that should be taken into account in determining the appropriate measurement basis on initial recognition only become apparent in the context of subsequent measurement. We therefore recommend that comments made in response to this paper be regarded as being only partial in nature unless respondents have commented on the issues raised on a holistic basis.

We would also comment as follows:

- The paper proposes quite radical change in parts without articulating any compelling reasons why existing practice is not appropriate. Such a change would not be without considerable cost and there is no indication that there are benefits to users that would exceed the costs.
- The paper proposes changes to established definitions, including, for example, the definition of historical cost and fair value. These are clearly significant concepts and any review, surely, should form part of the review of the IASB's conceptual framework.
- There are issues concerning the existence or otherwise of active markets that necessitate further thought. Fair values can only be reliably measured when there are active markets and yet there are relatively few assets and liabilities for which such markets exist. This impacts not only the practicality of the proposals but the meaning and usefulness of the fair values so determined.
- The proposed use of fair value would involve significant cost and, in some cases, it is questionable whether the market infrastructure exists to support revaluation exercises.

We therefore believe that the issues raised in the paper should only be pursued within the context of the review of the IASB's conceptual framework and the consideration of measurement issues on a more rounded basis. We would also ask that consideration be given to the practicalities involved and whether the proposals are likely to meet the expectation on the part of the European Union that regulation only be revised substantially if there is a clear and discernable benefit and the costs involved are proportionate to that benefit.

Yours faithfully

A handwritten signature in black ink, reading "Paul Chisnall". The signature is fluid and cursive, with the first name "Paul" and last name "Chisnall" clearly distinguishable.

Paul Chisnall