

13 September 2010

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Dear Sir / Madam

Re: Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)* ('the ED'). This letter is intended to contribute to IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

EFRAG has limited its response in this letter to the Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)*.

Through its due process, EFRAG has noted general acknowledgement that the consideration and disclosure of the effects of correlation provides meaningful information about the measurement uncertainty related to items measured at fair value within level 3 of the fair value hierarchy. However, there appear to be different interpretations of the proposals as they are currently drafted with constituents falling in two broad categories of understanding:

- (a) Some, including EFRAG, believe the proposals require an entity to consider its measurement and the related risk management processes, as they are currently applied, to provide information about the correlation between unobservable inputs that it considered in determining the value presented; and
- (b) Others who believe the proposals to require an entity to perform an additional assessment of whether correlations exist between unobservable inputs that falls outside its normal measurement and related risk management processes.

EFRAG supports the proposed changes to the measurement uncertainty analysis disclosure. Specifically, EFRAG:

- (a) welcomes the clarification that the analysis is focussed on unobservable inputs and by implication provides information about measurement uncertainty as opposed to market risk;
- (b) supports the rationale for changing the wording "reasonably possible alternative assumptions" and the convergence objective it achieves;

EFRAG draft letter on the IASB ED Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)

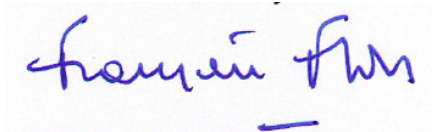
- (c) agrees that correlation is an important factor in providing a meaningful analysis of measurement uncertainty where relevant; and
- (d) that correlation should only be considered in instances where its effect on the fair value measurement is significant.

Nevertheless, we urge the IASB to reconsider the proposed drafting to avoid the misinterpretation identified above.

Our detailed response to the questions in the ED can be found in the appendix to this letter.

If you wish to discuss our comments further, please do not hesitate to contact Marius van Reenen or me.

Yours sincerely

A handwritten signature in blue ink, appearing to read "françoise flores". The signature is written in a cursive style and is positioned above a short horizontal line.

Françoise Flores
EFRAG, Chairman

Appendix
EFRAG's response to the questions asked in the ED

Question 1

Are there circumstances in which taking into account the effect of the correlation between unobservable inputs (a) would not be operational (e.g. for cost-benefit reasons) or (b) would not be appropriate? If so, please describe those circumstances.

- 1 The proposals as currently drafted seem to have resulted in divergent interpretations with EFRAG's constituents falling in two broad categories of understanding:
 - (a) Some, including EFRAG, believe the proposals require an entity to consider its measurement and the related risk management processes, as they are currently applied, to provide information about the correlation between unobservable inputs that it considered in determining the value presented; and
 - (b) Others who believe the proposals to require an entity to perform an additional assessment of whether correlations exist between unobservable inputs that falls outside its normal measurement and related risk management processes.
- 2 Those constituents in (b) above are so concerned that they oppose the proposals and suggest that the IASB require separate sensitivity analyses of each unobservable input.
- 3 EFRAG understands this concern. However, our understanding of the proposals is in line with (a) above. In our view, there may be instances in practice where the consideration of correlation would be relevant and its effect significant. In these situations we expect that considering this correlation would result in meaningful information. We urge the IASB to stress this in finalising the guidance.
- 4 Therefore, EFRAG does not believe that the disclosure requirements should be limited to accommodate instances referred to in the IASB's question above.

Question 2

If the effect of correlation between unobservable inputs were not required, would the measurement uncertainty analysis provide meaningful information? Why or why not?

- 5 In EFRAG's view, a measurement uncertainty analysis that considers correlation between inputs provides more relevant information. Such an analysis provides a realistic economic alternative value to the amount presented in the financial statements. EFRAG believes this is meaningful information.

Question 3

Are there alternative disclosures that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorised within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

- 6 EFRAG is not aware of any alternative disclosures that would achieve the objective of the ED as we understand it.