9 October 2009

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Sir

RESPONSE TO EXPOSURE DRAFT ON FAIR VALUE MEASUREMENT

The Accounting Standards Council (ASC) appreciates the opportunity to comment on the exposure draft on Fair Value Measurement issued by the International Accounting Standards Board (IASB) in May 2009.

Broadly, we are supportive of the IASB's decision to re-define fair value and to improve fair value measurement guidance. We also fully support the IASB's efforts to strive towards global convergence on fair value measurement, which we believe is especially crucial and timely in recent times of financial crisis. However, we believe there are some aspects of the ED that require further refinement and/or clarification by the Board. In general, our observations and suggestions are as follow:

(i) Exit price notion

The Board has concluded (in BC28) that a current entry price and a current exit price will be equal when they relate to the same asset or liability on the same date in the same form in the same market and hence, proposes an exit price notion to define fair value. We are not totally convinced of this reasoning, especially when the proposed exit price notion is applied to non-financial items. In addition, we would like to suggest that the Board consider using the higher of (1) value-in-use or (2) exit price (based on in-exchange valuation premise) to arrive at a decision-useful number that is more reflective of the economic realities of the entity. Please see our responses in Question 1 below.

(ii) Most advantageous market

The ED proposes that a fair value measurement assumes that the transaction takes place in the most advantageous market to which the entity has access. We urge the Board to be mindful of the practical challenges that may result from this assumption, especially in the case of non-financial items. We are of the view that for non-financial items, looking to the principal market as the first consideration is more practical and logical than searching for potential alternative markets that may be more advantageous. Please see our responses in Question 3 below.

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(iii) Highest and best use

The ED proposes to use the "highest and best use" notion to determine the fair value of an asset. We do not fully agree with the proposal that the fair value of an asset should be based on the "highest and best use" notion as such an application is based on a hypothetical situation which does not reflect the economic realities of the business. We believe that the entity's "business model" should be the first and foremost factor to consider in determining the fair value of an asset. However, if the Board decides to proceed with the "highest and best use" approach, we believe that the risk associated with the transfer of current use of the asset to the best use should be taken into account in the fair value measurement of the asset. As mentioned above in (i), we believe that the approach of using the *higher of (1) value-in-use or (2) exit price (based on in-exchange valuation premise)* would provide more decision-useful information that is more reflective of the economic realities of the entity, as opposed to the "highest and best use" approach. Please see our responses in Question 5 below.

(iv) Entity-specific notion vs market participants-based notion

The ED proposes a market participants-based notion to determine fair value of assets or liabilities. We think that besides market-based factors, the consideration of entity-specific factors is also necessary in many cases, such as for non-financial assets and liabilities that do not have active markets. Also, we think that there are some internal inconsistencies on the application of the market-based notion as proposed within the ED which requires the Board's clarity. Please refer to our responses in Question 4 below.

(v) Global convergence

We strongly recommend that the Board work closely with FASB to align the measurement principles of their respective standards on fair value measurement, so as to move a step closer to global convergence in the accounting standards.

Our views are expressed in detail in the specific questions as follows:

Question 1

The exposure draft proposes defining fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date' (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs. Is this definition appropriate? Why or why not? If not, what would be a better definition and why?

Broadly, we agree that the definition as stated above is appropriate and that the use of the exit price notion is conceptually sound as it provides an appropriate objective for fair value measurement that can be applied consistently, especially for financial instruments. However, we think that situations do exist where the exit price notion of fair value may not be suitable and by proposing exit prices as a single measurement basis across all assets and liabilities, the economic reality of a transaction may not be appropriately reflected for such instances. This is especially so for non-financial items where entity-specific factors needs to be considered to arrive at the most decision-useful information. Instead of relying on a hypothetical assumption that an exit price is equal to entry price when they "…relate to the same asset or liability on the same date in the same form in the same market…" as suggested in the ED, we

believe that the fair value concept should also take into account the nature of the assets, the existence of a market or the lack of it (in the case of firm-specific/specialized assets such as intangible assets), and also the various risk factors (eg regulatory clearance, social costs, time value of money) that may exists for the alternative use of the asset or liabilities. By taking into account all these relevant factors that could impact the exit price as proposed in the ED, the resulting fair value would then be able to better reflect the economic realities of transactions for both financial and non-financial items..

Additionally, we would like to suggest an alternative approach that could better achieve the Board's intended fair value measurement objective and that provides better and more decision-useful information for the users of the financial statements – by using the *higher of (1) value-in-use or (2) exit price (based on in-exchange valuation premise).* We believe that this approach is more reflective of the economic realities of the entity and is a far better measurement basis than the single measurement basis of exit price that is proposed.

Additionally, we would encourage the IASB to reconsider its guidance for initially recognizing transactions at fair value that are not subsequently measured at fair value. For items that are not subsequently measured at fair value, we believe the transaction price generally is more relevant than an exit price for initial recognition (although, usually there should be little or no difference). When an item is not subsequently measured at fair value, we are of the view that the more relevant initial value is the transaction price which represents the amount of resources incurred or received upon entering into the arrangement (presuming the transaction was on an arm's length basis).

Question 2

In three contexts, IFRSs use the term 'fair value' in a way that does not reflect the Board's intended measurement objective in those contexts: (a) In two of those contexts, the exposure draft proposes to replace the term 'fair value' (the measurement of share-based payment transactions in IFRS 2 *Share-based Payment* and reacquired rights in IFRS 3 *Business Combinations*) (see paragraph BC29 of the Basis for Conclusions); (b) The third context is the requirement in paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement* that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term 'fair value', but instead proposes to exclude that requirement from the scope of the IFRS. Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

Yes, we agree with the proposed approach to the three issues as stated above. However, we think that it would be useful to re-label the term "fair value" where a current value measurement basis within another IFRS is a deviation from the fair value measurement basis as prescribed by this proposed IFRS to avoid confusion. For consistency, we suggest that the Board should also consider whether the term "fair value" in the following IFRSs reflect the Board's intended measurement approach:

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IAS 20, paragraph 23
"A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount."

IAS 39, paragraph 43
"When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability."

IAS 41, paragraphs 12 and 13
"A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less cost to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."

"Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying FRS 2 Inventories or another applicable Financial Reporting Standard."

Other than the 3 specified instances (IFRS 2, IFRS 3 and IAS 39), the ED requires its application in all other instances of fair value. We urge the Board to consider whether the exit price notion is consistent with the application of fair value in the context of finance leases. We refer to IAS 17.10(d) which provides that a lease is classified as a finance lease if *"...at the inception of the lease the present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset*" and IAS 17.20 which provides that "*At the commencement of the lease term, lessees shall recognise finance leases...at amounts equal to the fair value of the lease property or, if lower, present value of the minimum lease payments...*". It appears to us that an entry price is envisaged in the context of lease classification, rather than an exit price, and is inconsistent with the ED. We are cognizant that this concern may be unnecessary when the final standard on leases following the IASB's leasing project is issued. However, we would nevertheless like to highlight this area to the Board for greater consideration and guidance to ensure the standard is internally consistent for all instruments that fall within its scope, including finance leases, in view that the completion date for the leasing standard may be later than that for this fair value measurement project.

Question 3
The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions). Is this approach appropriate? Why or why not?

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We do not fully support the proposal. Whilst we can understand the Board's rationale for its preliminary view that an entity is most likely to enter into a transaction in the most advantageous market and this market should be assumed in the fair value measurement of the transaction, we believe this assumption may be applicable and practical only to financial items. For many non-financial items where active market do not exist, it could be practically challenging to search for the "most advantageous market" and we are of the view that looking to the principal market as the first consideration is more practical for these non-financial items as opposed to searching for potential markets that are "most advantageous". Only if there is no principal market would the entity look to an alternative most advantageous market (which is the approach undertaken by the FASB in SFAS 157).

If the Board chooses not to change the approach, we recommend that in addition to the commentary provided at paragraphs BC 39-BC40, the IASB should further address why it is reasonable to assume that the market in which an entity normally transacts should typically be considered the most advantageous and why the most advantageous approach is superior. We also believe that the level of market activity may be a factor that should be considered in determining the "most advantageous market".

Additionally, we note that BC37-41 of the ED proposes that an entity should assume that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access. This is different from the US SFAS 157 which assumes that the transaction takes place in the principal market, or in the absence of a principal market, the most advantageous market. We suggest that the Board consider if there is scope to converge with FASB in identifying the reference market. If there is no intent for a difference in application, it would be desirable to have a converged basis and terminology in the final standard for consistency.

Question 4
The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions). Is the description of market participants adequately described in the context of the definition? Why or why not?

Knowledgeable market participants

We also have some concerns about the way in which "knowledgeable" is described in the proposed definition of a market participant.

"Knowledgeable" is specifically defined in paragraph 13(b) of the ED as someone "*sufficiently informed to make an investment decision and [...] presumed to be as knowledgeable as the reporting entity about the asset or liabilit*y." Further, paragraph BC45 in the basis for conclusion of the ED indicates, "*The market participant and the reporting entity are presumed to be equally knowledgeable about the asset or liability, although neither party is perfectly knowledgeable"*. In other words, a fair value measurement does not reflect information asymmetry, although it does reflect information uncertainty (i.e. the uncertainty

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an entity faces because it does not have perfect knowledge about the timing and amount of future cash flows).”

The above definition of “knowledgeable” assumes that the market participant has access to the same “insider” information even though that information is not available in the market. Using this definition of “knowledgeable” would move the definition of a “market participant” towards an entity-specific concept, which does not seem realistic and is yet another area of internal inconsistency with a market-participant-based concept as proposed in the ED.

We believe that the appropriate reference point for “knowledgeable” in paragraph 13(b) of the ED should be what a market participant might be able to ascertain from due diligence efforts. This would be more reflective of the realities of the marketplace and how deals are transacted.

Question 5
The exposure draft proposes that: (a) the fair value of an asset should consider a market participant’s ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions); (b) the highest and best use of an asset establishes the valuation premise, which may be either ‘in use’ or ‘in exchange’ (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions); (c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions). Are these proposals appropriate? Why or why not?

(a) We do not fully agree with the proposal that the fair value of an asset should be based on the highest and best use notion. We believe that the business model of an entity is a more crucial factor to consider in determining the fair value of an asset and should take precedence over the hypothetical application of the “highest and best use” concept. If there are critical conditions (for example, commercial consensus and regulatory clearance) to be met before the asset can be converted to its highest and best use, the market participants would not ignore the conditions in valuing the asset. Assuming “highest and best use” could inflate values as there are too many extraneous factors (eg. social costs, strategic issues, etc.) that could make “best use” values in one market different from others and is also very subjective from buyer to buyer. Hence, while the hypothetical value (assuming all conditions are met) may be higher, the actual value (short of all conditions being met) could actually be lower - and this is probably where the “highest and best use” notion falls short in reflecting the economic realities and could even possibly result in misleading or distorted information to the users of the financial statements.

As mentioned above in our responses to Question 1, we suggest that the Board considers the approach of using the higher of (1) value-in-use or (2) exit price (based on in-exchange valuation premise) as we believe that this approach would provide greater decision-useful information that is more reflective of the economic realities of the entity, as opposed to the “highest and best use” approach.

In addition, the ED highlights three areas for which assumptions are required to determine "highest and best use": (a) physical possibilities (e.g. location of the asset) (b) legal restrictions and (c) financial feasibilities. These are at best, minimum conditions to determine "highest and best use". Within these constraints are a significant number of possibilities that may qualify for "highest and best use". Our concern is that "highest and best use", as is defined in the ED, may fall within the realm of the hypothetical for which no reliable evidence exists. As such, if the Board decides to proceed with the "highest and best use" approach, we suggest that the Board consider the inclusion of more rigorous conditions to guide the application of the "highest and best use" notion, in addition to the minimum three assumptions above. We believe that the risk associated with the transfer of current use of the asset to the next best use should be taken into account in the fair value measurement of the asset (similar to our responses to Question 1 on the application of the exit price notion) in order to arrive at the most relevant and appropriate fair value.

Additionally, the ED requires "highest and best use" to be determined from the perspective of market participants, even if the reporting entity intends a different use (paragraph 18). The underlying notion is that market participants know the "highest and best use" better than the entity. This notion runs counter to the fact that firms exist because they can organize and harness their assets collectively better than markets can. This is particularly so when the assets are highly specialized and unique and have no market equivalent. In these instances, the information asymmetry between market participants and insiders is significant and imputing the market participant's perspective may be inappropriate. The ED can provide greater amplification on how "highest and best use" can be applied to highly specialized and unique assets for which no market equivalent exists.

The ED states than an entity need not perform "an exhaustive search for other potential uses if there is no evidence to suggest that the current use of an asset is not its highest and best use" (paragraph 18). It is rare that an entity would concur that the use of its asset is sub-optimal and that there are higher and better uses of the asset. Hence, while the use of the "market participants" perspective may bring about a greater degree of objectivity, in reality, it may be simplistic and economically infeasible to assume that market participants know how to deploy the asset better than entities.

(b) While the concepts of "in-use valuation premise" and "in-exchange valuation premise" may be well understood within asset valuation literature, the write-up in paragraphs 22 to 24 could be revised to reduce repetition and improve clarity. In particular, the language in BC 57 is clearer than that in paragraph 24.

(c) Generally, we agree that the "in-use" valuation premise does not apply to financial assets or liabilities as proposed in the ED. However, existing requirements in IAS 39 states under AG 72 that "When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions ...". This appears to us an example of the application of the "in-use" premise rather than "in exchange" as proposed in the ED and we would like to seek the Board's clarification in this area.

Question 6

When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions). Is the proposed guidance sufficient and appropriate? If not, why?

In a group of assets, the ED requires the "highest and best" use to be determined for each individual member in that asset group. For example, the land on which a factory stands must be determined for its highest and best use, separately from the factory. The fair value of the factory would assume its current use, while the fair value of the land would include an incremental value that relates to the entity's ability to convert the industrial property to a residential property.

The concept of showing the fair value of an asset group into two components (value for current use plus incremental value for highest and best use) has its merit but difficult to implement in practice. Generally reporting entities may not explore the alternative use of an asset, such as land, formally on a periodic basis especially when the asset is used in its core business and it is not contemplating a change of its core business. Paragraphs 20 and 21 are written in the context of a group of asset. However, this need not be the case as a single asset also can have higher or better use (for example, due to plot ratio increase for land).

This "asset-stripping" methodology is not appealing as it runs counter to the notion of the primary purpose for which the group of assets exists, i.e. there are inherent synergies that arise from the co-existence of related assets. The ED emphasizes short-term gains from selling the land but without any recognition of the long-term benefits that arise from the long-term production of goods and services. The dismembering of assets into individual stand-alone units is not in line with the notion of the entity as a going-concern, which is able to organize these assets in a synergistic manner over the long-term, and is yet another hypothetical assumption which may not be reflective of the practical scenario

In many cases assets will only achieve the "best use" value if used in conjunction with other assets and deriving two separate values, of which one may be theoretically higher, can be meaningless in reality. An additional example would be in the case of power plants – arguably, one could redevelop the land that a power plant sits on but it may cost more to move the plant given the various infrastructure connections so in actuality, the value of the individual land is not likely to be realized on a stand-alone basis. There may also be concerns over how the fair value of the alternative asset use is determined as it assumes that demand, price, etc. factors can be reliably ascertained.

Question 7

The exposure draft proposes that: (a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions); (b) if there is an active market for transactions between parties who hold a financial

instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions); (c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS). Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

(a) We agree with the proposal.

(b) We agree with the proposal.

(c) There are many liabilities held by one party which are not represented by corresponding assets held by another party. Examples include a provision for product warranty and a provision for pension liabilities. These liabilities cannot be attributed to specific creditors; they are collectively attributed to a group of creditors on an actuarial basis. As explained in paragraph 28 of ED, the fair valuation of such liabilities is based on the notion of settlement. This means that for any estimated future cash outflow which an entity will incur in fulfilling the obligation, there is a present value at the measurement date at which the entity may cash settle for a third party to assume that future liability.

Under the settlement notion, we feel the appropriate discount rate is the risk-free interest rate rather the reporting entity's risk-adjusted interest rate. We understand that in the US, a high quality corporate bond rate is used as the risk-free proxy. In the purest form, once the liability is provided at the present value (derived by discounting at the risk-free rate) and matched by a cash deposit yielding a risk-free return, there is no further profit or loss impact in future reporting periods. If the entity earns a credit spread on the cash deposit over the risk-free risk, the additional profit or loss comes from separate credit risk taking by the entity.

There are merits in using the risk-free interest rate to value this type of operational obligations. As the risk-free rate reflects only the time value and does not include the entity's own credit risk premium, the build-up of the liability from its present value to its future value is not affected by the volatility of the price of the entity's own credit risk. This avoids the "noise" in the income statement due to changes in the entity's own credit risk over time. Also a lower risk-free rate means a higher liability value at inception and this minimises the risk of under-provisioning at the beginning, with a high interest rate being used to build up the obligation to its future value. While paragraph 28 mentions "using a present value technique" and refers to Appendix C which provides a fuller write-up on present value techniques, it does not discuss the concept of using a risk-free or near risk-free interest rate to measure an

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operational liability (as opposed to a borrowing liability). We are of the view that some clarification in this respect is useful.

The ED suggests that if there is an active market between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. However, one could foresee the situation that the market for transferring an asset may not, in all instances, be the same as the market for transferring a liability. In any event, even in an active market, one would argue that a bid-ask spread should result in a difference between the price to be received to sell a financial asset and the price be paid to transfer a financial liability. Accordingly, an appropriate adjustment may be necessary and guidance would be useful in that regard.

Question 8

The exposure draft proposes that: (a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions); (b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions).Are these proposals appropriate? Why or why not?

(a) We refer to our comment letter on the DP on Credit Risk in Liability Measurement that is dated and submitted on the 1 September 2009. In that letter, we agreed that credit risk should be incorporated credit risk into the fair value of financial liabilities, both at initial and subsequent measurement, unless it relates to non-derivative liabilities (1) whose contractual cash flows are fixed or fluctuate solely based on a market interest rate (including non-leveraged inflation) and are not managed on a fair value basis (2) where the entity does not have the practical ability to realize gains or losses associated with changes in own credit in the ordinary course of business. For other liabilities that are outside the scope of IAS 39 (such as defined benefit pension schemes decommission obligations, warranties, or insurance claim liabilities), our view is that the measurement should not incorporate the price of own credit risk both at initial and subsequent measurement. Instead, these liabilities should be measured using a risk-free rate to reflect the time value of money.

(b) We agree with the proposal.

Question 9

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions).Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

We support the proposed accounting treatment of recognizing the day one gain or loss which arises from the difference between fair value and transaction price for those financial assets and financial liabilities which are subject to fair value measurement on subsequent dates.

However, we are not convinced of the appropriateness and usefulness of recognizing upfront the day one gain/loss for financial and non financial assets or liabilities which are not traded in an active market and which are not subsequently measured at fair value. As the market is not active, it is reasonable to expect that there will be difference between the transaction price and the exit price. Requiring entities to realize the day one difference upfront does not appear to make economic sense. This is more so that such day one difference will reverse out in the subsequent periods by a higher or lower amortization in the case of financial instruments held at amortised cost, or through a higher or lower depreciation for non-financial instruments, or a higher or lower gain/loss on disposal or impairment for those items subsequently measured at cost. We do not see the usefulness of this accounting exercise to users of the financial statements. For items that are not subsequently measured at fair value, we believe the transaction price would be more relevant than the exit price for initial recognition as transaction price for an asset and liability between unrelated parties on an arm's length basis represents the amount of resources incurred or received upon entering into the arrangement.

In addition, we do not support the proposed amendment to IAS 39 paragraph AG 76(b) that the day one gain/loss should be deferred if the criteria in IAS 39 AG 76(a) are not met. Apart from not being consistent with SFAS 157 footnote 18, which suggested that under this situation the valuation model be calibrated such that the valuation model resulted in a value that is equal to the transaction price at initial recognition, the deferral as proposed by the Board as a separate debit or credit does not meet the conceptual definition of an asset or liability. The proposed deferral in the IAS 39 paragraph AG 76(b) is also not consistent with the concept of fair valuation and could be the result of fundamental issue or issues that the Board has not addressed in the standard. This concern could be mitigated in part if the Board reconsiders its guidance for items which are not subsequently measured at fair value, to use the transaction price at initial recognition. After all, transaction price in a non related party transaction represents the fair value of the consideration given or received in an arm's length transaction which can be reliably estimated at initial recognition. The recognition of a deferred gain/loss as proposed by the ED, on the other hand, does not provide decision-useful information and could instead, add confusion and complexity. As an alternative suggestion, the Board could consider scoping out unrelated party transactions from the requirement to recognize any gains/losses at initial recognition (in other words, to presume nil day 1 gains/losses), unless there is evidence to the contrary.

In respect of paragraph 36(d), it would be useful if guidance could be provided for situations where the 'market in which the transaction takes place is different from the market in which the entity would sell the asset or transfer the liability" other than the securities dealers. Take for example, the case of trading companies operating in wholesale framework and trading companies dealing with retail customers. Such trading companies could be dealing in the same commodity, electronic products etc but with a different set of customers in different markets. Further guidance in such situations where the entity operates in different markets would be useful in ensuring consistent application.

We would like to comment on BC 77- “Determining whether to recognize day one gain or loss is beyond the scope of this project”. Currently, most of the accounting standards for non financial assets do not have guidance on the accounting treatment of the day one difference. By not providing guidance on the accounting treatment on day one gain/loss is likely to lead to inconsistent accounting practices which would not facilitate comparability across entities. To ensure consistent application, we would encourage the Board to issue relevant guidance on the accounting treatment of day one difference for those accounting standards which currently do not have such guidance. To facilitate convergence with FASB, we urge the Board to develop the guidance which is in alignment with the US GAAP.

Also, we note that although the ED allows the recognition of the resulting gain or loss from initial recognition of an asset or liability at fair value that differs from the transaction price (ie. day 1 profit or loss) on condition that the fair value is evidenced by observable market price or when a valuation technique is used, solely by observable market data, it is not clear how these conditions will be applied on subsequent measurement on Day 2. Further guidance in this area would be helpful.

Another issue is the treatment of price differential in different markets. If an entity's business is to borrow funds from the wholesale market for lending to the retail market at a margin, the concept of allowing the use of prices from the most advantageous market to measure the asset or liability will allow a profit to be recognised when the entity merely performs one part of a transaction without completing its value-adding activity.

Question 10
The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples). Is this proposed guidance appropriate and sufficient? Why or why not?

The guidance starting in paragraph B5 relates to determining fair value in markets that are not active. However, the guidance in SFAS 157-4 relates to determining fair value when there has been a significant decline in market activity (which may or may not be indicative of an inactive market). Although the factors listed in SFAS 157 may relate to determining when a market is not active, we believe that as currently incorporated in the ED, not all the factors listed are in themselves indicative of an inactive market (see next bullet). We recommend the Board considers the wording in SFAS 157 in the ED, except as noted below or specifically list factors characteristic of a market that is inactive to avoid any confusion and misapplication.

- The characteristic listed in paragraph B5 (a) (i.e., a significant decrease in market activity) is not indicative of an inactive market but of a market that is less active, but which may still be active.

- The Board should clarify in paragraph B5(c) what is meant by "current information." Is it based on actual trades or just the availability of quotes, which may not be based on any actual transactions?

- The characteristic in paragraph B5 (d) implies that the market for a security may be deemed inactive just because price quotations vary substantially over time; however, the security may be traded in significant volume on a daily basis. That is, significant price volatility is not necessarily an indicator that a market is inactive. Although many equity securities issued by large financial institutions experienced significant declines in price in 2008, they continued to be traded in significant volumes on a daily basis.

- The characteristic in paragraph B5 (e) suggests that the market for a security is inactive if indices that were previously highly correlated are demonstrably uncorrelated with recent fair values. However, this is not necessarily indicative of an inactive market. For example, a publicly traded stock that was previously correlated to an index (e.g., Nikkei 225) may no longer be correlated but may still be traded in significant volume.

- The characteristic listed in paragraph B5 (h) (i.e., a significant decline or absence of a market for new issues) is not indicative of an inactive market if there is an active secondary market or the market is less active, but still active.

- We recommend the Board considers adding "immediately" prior to "to meet regulatory or legal requirements" criteria in paragraph B11(c) to avoid any misapplication. Even though an entity is required to sell, it may still have adequate time to allow for customary and usual marketing activities

- We recommend the Board further clarifies the criteria in paragraph B11(d). What if significant events occurred related to the specific asset which caused the transaction price to be an outlier? Would the Board still consider the last transaction not to be representative of fair value?

Question 11
The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions). Are these proposals appropriate? Why or why not?

We agree that the following proposals relating to disclosure as proposed by the Board result in improvements over SFAS 157 as they provide relevant and useful information to users of the financial statements:

i) Paragraph 57 (c) on the disclosure of any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers;

ii) Paragraph 57 (g) on the disclosure of any changes in one or more of the inputs that would change significantly the fair value of the assets in Level 3; the effect of the change and how the change is calculated;

iii) Paragraph 58 on disclosure of fair value, by level within the fair value hierarchy, each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed;

iv) Paragraph 59 on certain disclosure of each class of liability measured at fair value after initial recognition;

We believe the ED needs to be re-looked at in the following areas to be consistent with SFAS 157:

i) The ED does not propose interim disclosures for non financial assets and liabilities, unlike SFAS 157. The proposed changes to IAS 34 "Interim Financial Reporting" paragraph 16 (k) only requires disclosure for financial instruments

ii) Under SFAS 157, an entity is required to provide different disclosures for recurring fair value measurements than it does for nonrecurring fair value measurements. The ED does not distinguish between recurring and nonrecurring fair value measurement disclosures. The Board should consider the disclosure requirements in the ED that explicitly require separate disclosure of assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition

Question 12
The exposure draft differs from Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157. Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

We agree that in certain aspects as outlined in BC 110, the differences result in improvements over SFAS 157. However, from the implementation and economic relevance point of views, we believe the following areas are less superior that SFAS 157. They should be re-considered to make the fair value measurement standard more realistic, more reflective of the economic dynamics in the business world and hence more useful to the users of the financial statements.

i) Reference market: From a conceptual viewpoint, the ED takes the stand that an entity should be presumed to normally transact in the most advantageous market rather than the principal market. As result of this approach, if an entity were to conclude there was a market

that was more advantageous than the market it principally transacts in, it would measure items at a higher fair value, only to recognize losses when it transacts in its principal market. We believe the Board should revise its approach to look to the principal market first and only if there is no principal market, look to the most advantageous market. Implementing the ED to look for the most advantageous market will result in undue research cost and the application may not be meaningful when the entity does not sell in the identified most advantageous market

ii) Highest and best use: While we appreciate the basis for using the highest and best use concept which is consistent with SFAS 157, we foresee challenges in implementing this concept for non financial items in gathering the relevant information to apply the concept. We understand the implementation of SFAS 157 for non financial items was delayed until 2008 due in part to concerns over implementation. We encourage the Board to seek feedback from preparers of financial statements using SFAS 157 on the practical issues and include relevant implementation guidance in the accounting standard. For example trading companies operating in different client segments e.g. retail and wholesale and commodities companies with different upstream and downstream activities would need to take into accounts different factors in determining the highest and best use for their assets. The current examples in the ED are too limited and overly simplistic to ensure proper and consistent application

iii) Day 1 gains or losses: while SFAS 157 implicitly requires recognition of day 1 gains or losses even if the fair value measurement uses unobservable inputs, the ED proposes the deferral of the gain or loss which is conceptually inconsistent with fair value measurement principle. In addition, the deferred gain or loss which is presented as a separate credit or debit does not meet the conceptual definition of an asset or liability. On the other hand, SFAS 157 footnote 18 suggested that in such situation, the valuation model be calibrated such that the valuation model resulted in a value equals to the transaction price at initial recognition. This in our view makes better economic sense and is more coherent with sound accounting treatment than recording the day one difference and deferring it as a separate credit or debit which has no accounting conceptual merit.

Question 13
Do you have any other comments on the proposals in the exposure draft?

Further guidance on fair value measurement
The recent crisis has revealed there is significant valuation uncertainty for financial instruments that are either not actively traded, have sufficient market depth or rely principally on valuation model using inputs that are not observable from the market. While the ED contains some guidance to address valuation uncertainty associated with fair value measurement, we believe IASB could draw more extensively from the existing guidance on fair value measurement of financial instruments in markets that are no longer active that are included in the report of the IASB Expert Advisory Panel (EAP). We believe that the guidance in the EAP report is more principles-based than that contained in the ED and codifying some of the guidance contained in the EAP will help promote greater consistency in valuation of financial instruments. For example, it would be useful to have more guidance on the how fair values are derived when broker quotes or pricing services are used, more

specific examples on how valuation adjustments should be applied to determine fair value as well as more guidance on what constitutes an appropriate measure of fair value in illiquid market situations.

A unified fair value approach for both financial and non-financial assets and liabilities may pose practical issues in its application. This is especially so in a liability situation where a market does not exist and the intention of the entity is to settle the liability. This brings into the picture the management's intention as opposed to the market's perspective in the determination of fair value. Such issues should be addressed in greater clarity in the final standard.

Field testing

We believe that in order to fully identify and address the various issues that may arise from the ED, it would be useful that the Board consider conducting field tests or other consultation exercise with the preparers of financial statements so as to reduce interpretation challenges when the ED is finally published as an accounting standard. It would be especially useful to gather feedback from preparers of financial statements using SFAS 157 (which has been implemented in the US since 2007), especially in the application of the "highest and best use" notion and the "exit price" notion (we note that these two concepts already exist in SFAS 157). It would also be useful to observe whether the use of "principal market" as prescribed in SFAS 157 would be a more appropriate and practical approach as opposed to the "most advantageous market" notion in the ED.

Convergence in accounting standards

Last but not the least, we would like to reiterate our strong support for the Board to work closely with FASB to conform the measurement principles of their respective standards on fair value measurement. We noted similarities and differences (such as those stated in BC110) between the proposed guidance on valuation techniques in the ED and SFAS 157. While we appreciate why some of the guidance in the ED is different from SFAS 157 due to some conceptual framework differences, we would urge the Board to consider using similar languages in the ED if it agrees with the relevant framework of SFAS 157 so as not to create wording differences that cause confusion among constituents, thereby further reduce complexity and application issues that often result from inconsistent principles in similar U.S. and international standards. Convergence in the measurement principles between the IASB standard on fair value measurement and SFAS 157 will reduce (or eliminate) complexity and application issues, increase comparability of financial statements across jurisdictions and is definitely a beneficial and crucial step forward in the Board's convergence roadmap.

Additionally, we note that the FASB recently issued a proposed Accounting Standards Update, *Improving Disclosures About Fair Value Measurements,* intended to improve disclosures related to fair value measurements and increase transparency in financial reporting. The FASB also issued Accounting Standards Update 2009-05 (ASU 2009-5), *Measuring Liabilities at Fair Value,* in late August 2009. This guidance on how to estimate the fair value of a liability in a hypothetical transfer transaction was in response to requests from constituents for additional guidance on how to measure fair value of liabilities. We encourage the Board to work with the FASB on the *disclosure and measuring liabilities at fair value* projects with the common goal of convergence in mind.

Should you require any further clarification, do contact me. Thank you

Yours faithfully

Dexter Tan
Secretary, Accounting Standards Council