Appendix to ACTEO - AFEP - MEDEF
Comment letter on discussion paper "Fair value measurements"

Issue 1: SFAS 157 and fair value measurement guidance in current IFRSs

Question 1: In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not?

1- We would support a single source of guidance for measuring current value, not fair value

We are of the view that greater consistency would necessarily be achieved if IFRSs were to provide a single source of guidance for measurement. We believe that fair value is one measurement attribute among others and that it would be worthwhile to have a single source of guidance for measurement at cost or at any form of current value.

Nevertheless accounting for assets and liabilities at cost has been in practice for years and we agree that the most needed guidance is for measuring at current value. We therefore would support an IFRS that would set principles for how to measure at current value. IFRSs today require measurements at fair value or at fair value less costs to sell and the IASB has already planned to analyse those requirements and decide what form of current value was intended and is applied in practice. We therefore believe that the IFRS should encompass all forms of current value that are likely to be used in applying IFRSs, in order:

- not to presume at this stage that only fair value as described in SFAS 157 is to be retained;
- not to leave other measurement requirements in IFRS without any guidance.

We welcome the principle based approach developed in SFAS 157. We believe however that practical guidance is also needed. We therefore believe that the IFRS on how to measure current value should not be viewed as being fully comprehensive. We believe that detailed practical guidance should remain provided as part of the individual standards. This detailed guidance standard by standard would need to be consistent with – or subject to consistent application with – the IFRS on how to measure current value.

2- Developing a single source of guidance for measuring current value is likely to bring consistency. However this should not be done at the price of lack of relevance.

SFAS 157 appears to have been primarily written for financial instrument purposes, although examples are provided outside the financial instrument context. This may induce a lack of relevance for non-financial assets and liabilities, which have the following distinctive characteristics:

- Non-financial assets and liabilities are more rarely sold in the same market as in which they were bought,
- Non-financial assets and liabilities are more often sold in a different state from the state in which they were bought,
- There are less observable prices for non-financial assets and liabilities,
- Non-financial assets and liabilities are more often quite specific to the entity,
- Non-financial assets are often consumed by an entity, and are not in those cases for resale.

In order to take these distinctive features into account, we believe that there should be more than one current value attribute developed in the guidance. Otherwise, fair value applied, for example, to performance obligations arising from a customer contract, would according to SFAS 157 trigger profit recognition at inception.

To ensure relevant and reliable information, these distinctive features should not be ignored but taken into account and duly reflected in the measurement. One measurement objective is not enough, therefore we disagree with the IASB stating in paragraph 9 of the invitation to comment that SFAS 157 would be an improvement over IFRS, because it "establishes… a single objective that can be applied to all fair value measurements". Consistency does not mean uniformity.

Question 2: Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.

We believe that the IFRS 3 guidance provided in Appendix B (Allocating the cost of a business combination) has the merit of being practical and illustrates the type of guidance which is necessary in addition to a concise principle-based standard in the form of SFAS 157. Please refer to our answer to question 6 for comparison of present practice under existing IFRS and SFAS 157 requirements.

Issue 2: Differences between the definitions of fair value in SFAS 157 and in IFRSs

Question 3: Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?

No, we don't.

1- *An exit price will be seldom relevant in terms of performance measurement.*

We believe that fair value being defined as an exit price features how an entity's performance ought to be portrayed once and for all, without setting first any conceptual ground or even explaining why doing so would be relevant. C26 can hardly pretend to form the beginning of an explanation. We have considered different examples of activities and assessed whether measuring assets and liabilities on the basis of an exit price would be relevant, in terms of performance measurement:

- If a retailer were to value its purchased inventories on the basis of an exit price, this retailer would be in a position to recognise profit without any customer having signed any contract. The decision to purchase may contribute to the performance of the entity, from a market's perspective, if and when there is objective evidence that the entity has over- or under-performed the market in its purchase. Therefore if measuring performance had to be made from a market's perspective, it ought to measure this over- or under-performance only. The relevant measurement attribute for doing so is a market based entry price, not an exit price. Profit arising from a sale is not economically triggered by a purchase transaction. The situation is even more critical for a manufacturer who in addition to having to identify a willing buyer of its products needs first to succeed in transforming the goods purchased.
- Our assessment above is based on the fact that signing a contract with a customer is necessary (although not necessarily sufficient) to release the entity from the risk of not selling the asset after purchase. The performance of bank trading activities whose economic purpose is to cover risk positions accepted in signing sales of financial instruments to customers via the purchase of other financial instruments in the inter-bank market, and which as a consequence manage risk positions and not streams of cash-flows over time, can be best served by the reference to exit prices. Indeed, performance in this activity depends solely on the change in exit value of each instrument involved in the activity and on no other event, after contract inception.
- As credit providers, banks manage streams of cash flows over time. Even if, as in the trading activity, banks immediately borrow on the inter-bank market funds to meet their lending obligations, their performance depends on the actual interest margin they make in each period until loans are finally fully reimbursed by customers. Moreover banks do not have any principal market for selling their loans and borrowings, as resale is not part of their business model.

And introducing into their accounts values based on hypothetical exchange prices for their assets and liabilities would neither be relevant to their business, nor be likely to have any predictive value. In those activities, if current value was to be applied (which we would not consider as an improvement), only market based entry prices would in our view be consistent with how the related business model allows performance to arise.

- Exit prices are not appropriate either if applied to performance obligations arising from servicing contracts. For example a company that would have sold a contract to develop software over 2 years for €500,000 and would be able to transfer (no liability left towards the customer) this arrangement to a third party supplier for €480,000, would, on the basis of an exit price measurement have to record a profit of €20,000 at inception, even if outsourcing its obligation was contrary to its fully disclosed business strategy and the agreement with the customer. In that case again, the use of an exit price is not relevant to performance measurement.

On the basis of the examples described above, we see that both entry and exit prices may have relevance, but that the choice needs to be made at the level of the individual standards. The choice at the level of the standard should be made in such a way that the resulting measurement of performance is consistent with each entity's business model. This requires that the necessary conceptual development is carried out. In our answer to the discussion paper on the objectives of financial reporting we among others have asked that the objectives in terms of performance measurement be defined. The post comment period deliberations by the Board have not made any mention of that fundamental request.

We also see that in the vast majority of circumstances, the entry price has more relevance than the exit price. FAS 157.17 states that "in many cases, the transaction price will equal the exit price and therefore [in accordance with the definition proposed] represent the fair value of the asset or liability. We believe that that statement is flawed. In most circumstances, we believe, assets are acquired on markets different from the markets in which they are sold, and in many circumstances the assets are purchased in a different state from which they will be sold. This is indeed how entities add value for their customers. Hence in most cases entry price (transaction price) will differ from exit prices. In those cases, the use of exit prices would lead to profit recognition at inception, and, in our view, distorted performance measurement.

2- *Assets and liabilities need to be measured from the entity's perspective, not from anybody else's perspective.*

We believe that financial reporting should be established from the perspective of the entity, not from anybody else's perspective.

- We believe there is a huge difference between the entity's perspective and management intent and that the two shouldn't be confused. To be relevant, financial information needs to be presented in consistency with the economic substance of the operations the entity conducts. Basing measurement on the use of market data is meant to achieve objectiveness and comparability. Operating assets of a car manufacturer should not be portrayed as if they were assets of a used equipment dealer. Users have understanding of the economic logic of an entity's operations and relate financial reporting to other economic parameters available in the appropriate industrial sector. Therefore information which has predictive value is information which is consistent with the entity's business model. We therefore disagree that measuring at current value should be limited to measuring the asset or liability as if in an exchange transaction. The function assigned to assets and liabilities should have an influence on the choice of current measurement attribute and presentation should help disclose functions held by assets and liabilities adequately;
- We believe that the reporting entity should be viewed as an ordinary market participant and that there should be a rebuttable assumption that transaction prices struck by an entity are fully representative of the market price, unless there is objective evidence to the contrary.

As we have hinted above, we believe that more than one measurement attribute is necessary to measure at current value. Measurement on the basis of an exit price is just one of them. The reference to an exit "price" implies reference to an exchange transaction. For example, we would agree that an exit value can be relevant when assessing in an impairment test the recoverable amount of an asset; (please note that we would not necessarily conclude that an exit price (i.e. reflecting the recovery of an asset in an exchange transaction) is the relevant basis for an impairment test). We however believe that, for example, assets which are bought as inputs to a production process, if measured at current value, should be measured on the basis of current entry price.

Question 4: Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.

Yes, we do. We believe that a current entry price appropriately reflects market participant expectations of the price to pay to hold the asset in its present state, which in many circumstances well describes the financial position of the entity (please refer to our answer to question 3).

We agree that entry and exit prices are equal in the markets in which buyers and sellers are able to transact with each other directly. Equality also verifies in very deep and liquid markets. In all other circumstances, we do not believe that this equality verifies. In our view, a measurement principle based on an economic reality that only partly verifies would lead to a misrepresentation of performance in all situations where the economic reality is different from the assumption.

In addition, and as illustrated in our answer to question 3, measuring assets and liabilities on the basis of an exit price does not lead to what we consider a relevant measurement of performance for most businesses.

Question 5: Would it be advisable to eliminate the term "fair value" and replace it with terms, such as "current exit price" or " current entry price", that more closely reflect the measurement objective for each situation? Please provide a basis for your views.

Yes, we do. We believe that the term "fair value" should be dropped and more descriptive terms be used. As explained above there is a need for guidance on how to measure market based entry and exit prices. We also believe that in certain circumstances entity-specific values should be used. We therefore support that measurement attributes for current value include "current market exit price", "current market entry price", "current entity-specific exit value", "current entity-specific entry value".

Question 6: Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRS differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.

Yes, the exit price measurement objective in SFAS 157 contradicts fair value measurements in IFRS as applied in practice in numerous circumstances. We indicate below how various fair value measurements are applied today:

IFRS 2: not defined as either entry or exit;

IFRS 3 – Appendix B:

- Financial instruments (either traded on an active market or not): same market for entry and exit
- Receivables, payables: "amounts to be received" reflect an entry notion (the original contractual right measured on the basis of market inputs as of the acquisition date)
- inventories of merchandises, finished goods and work in progress: based on an entry notion: the price the entity would have to pay to get the goods in the state they are, as of the acquisition date.

- Inventories of raw materials: entry price (the price the entity would have to pay as of the acquisition date)
- Land and buildings: same market for entry and exit
- Plant and equipment: exit price or entry price if no reasonable estimate of exit price; in practice valuation on the basis of an entry price as in most circumstances prices observable on the market are not reflecting *orderly* transactions as meant in FAS 157 fair value definition (FAS 157.10, C25).
- Intangibles: entry price if not traded in an active market (same market for entry and exit)
- Liabilities: exit price (based on current inputs), settlement scenario as of contractual term (not as if settled as of the acquisition date)
- Contingent liabilities: exit price, transfer scenarios (expected value based on various potential scenarios)

IFRS 5 – Current market exit price ("Fair value" less costs to sell)

IAS 2 – No "fair value" measured in practice; impairment based on current entity specific exit prices

IAS 16 – Revaluation model equivalent to IFRS 3 fair value guidance

IAS 19 – Fair value of plan assets: exit value (on the basis of an income approach)

IAS 36 – Current market exit price ("fair value" less costs to sell); current entity-specific exit value ("value in use")

IAS 38 – Current market entry price

IAS 39 – Current market entry price upon initial recognition.

Fair value measurement guidance refers to measuring what the transaction price would have been in an arms' length transaction. Asset held: bid price; liability held: ask price.

IAS 40 – Exit price (same market however)

IAS 41 – Exit price.

This review clearly indicates that guidance for measuring different current measurement attributes is necessary.

Question 7: Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?

No, we do not think that the market participant view as articulated in SFAS 157 is workable.

We believe that referring to market participants is relevant to current value measurements, if and when market measurements are relevant for assets and liabilities, i.e. when a market exists i.e. the market is sufficiently active. We accept that hypothetical transactions may form the basis for measuring assets and liabilities at current value, but only in those circumstances where the entity could at some point access to the market and transact with real market participants. We believe that hypothetical transactions are a sound basis for estimates only when they feature real economic phenomena that could materialise or have happened. The definition of market participants in relation to principal markets or most advantageous markets is welcome to prohibit giving precedence in existing markets to *hypothetical* market participants over *existing* market participants. Only those assumptions that *existing* market participants would make are relevant inputs to valuation techniques (cf FAS 157.11). IFRS are at present silent on this issue and this may have lead in the past to misinterpretations.

However we do not think that the market participant view as articulated in SFAS 157 is workable, because we do not accept that market participants and market transactions be featured where:

- market estimates wouldn't be objective enough, i.e. where markets are not liquid enough or valuation techniques not sufficiently widely used to allow a desirable level of consistency and hence of representational faithfulness,
- selling assets or transferring liabilities is contrary to the widely known and disclosed business model of the entity.

In all those circumstances we believe that a standard on how to measure current value should include an entity-specific view, featuring the entity's ability to operate and the economic opportunities and constraints it faces.

Question 8: Do you agree that the market participant view in SFAS 157 is consistent with the concepts of "knowledgeable, willing parties" and "arm's length transaction" as defined in IFRSs? If not, how do you believe they differ?

The market participant view together is overall consistent with the concepts of "knowledgeable, willing parties" and "arm's length transaction". However SFAS 157 requires that parties be not related to the entity, even though transactions could be concluded at arm's length. We therefore see existing IFRS as less restrictive than SFAS 157.

Question 9: Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?

No, we do not. Consistently with our answer to question 3, we believe that liabilities should be valued on the basis of a transfer price only in those circumstances where the normal operating process of the entity calls for transfer of liabilities. When that is the case, a principal market may be identified and market data are available. Most often, it is not the case and there is no market for orderly transactions to take place. There would therefore be no economic reality against which valuation techniques could be tested.

Most often, liabilities are held until complete settlement as specified in the contract or required by law. Therefore we believe that under a market measurement objective liabilities ought to be valued on the basis of current settlement value, i.e. the present value of cash-flows necessary overtime to settle the liability (increased if necessary of a margin to cover risk and uncertainties), this value being estimated on the basis of current market inputs, when those inputs are directly observable. Otherwise, only current entity-specific settlement values ought to be used to measure liabilities, as the estimates would rely on assumptions that are no more objective than entity-specific data, and which have less predictive value.

Question 10: Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?

Yes, it does. Liabilities measured at fair value are most often valued on the basis of a settlement rather than a transfer scenario (see IFRS 3 – Appendix B – liabilities – for example).

For non-financial liabilities, settlement is usually valued at the current cost of performance (i.e. cost valued at current market conditions).

Issue 3: Transaction price and fair value at initial recognition

Question 11: In your view, is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.

No, we disagree that measurement techniques take precedence over transaction prices. We believe that estimating techniques have allowed accounting to make progress by providing values in the absence of observed transaction prices, when markets are sufficiently liquid or measurement techniques using directly observable inputs widely used. We also believe that the presumption should be that the entity itself is a regular market participant and that the price at which it buys assets is indeed the market price at the date of the transaction, unless there is objective evidence that the entity is, for some identified reason, not an ordinary market participant. We are therefore opposed to any form of unduly justified precedence being taken by estimates of current market prices over transaction prices, except when, as illustrated in our answer to question 3, relevant measurement of performance calls for the use of exit prices.

Therefore the question at stake is not whether "day one" gains and losses should be deferred or not. Whenever the use of exit prices is relevant in terms of measurement of performance, i.e. appropriately depicts the economic earning process of the entity, day one gains and losses should be recognised. Whenever an exit price is not relevant in terms of measurement of performance (and as already said this is the case in the vast majority of cases), an entry price should be used. In that case, we believe that the transaction price should be used.

Question 12: Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.

SFAS 157.6 indicates that the unit of account relevant for the measurement of assets and liabilities is to be defined standard by standard. As a consequence, and beyond SFAS 157.27 which is consistent with IAS 39, SFAS 157 shouldn't modify any definition of unit of account existing in IAS 39 so far. It doesn't make this definition any clearer either.

In practice, portfolio-based valuation of identifiable risks of instruments considered in aggregate is used as an IAS 39 compliant valuation method.

Issue 4: Principal (or most advantageous) market

Question 13: Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?

No, we do not agree with the approach of SFAS 157.

In our view, retaining the principal market notion is sound, i.e. the market on which the entity buys or sells (depending on whether an entry or an exit price is relevant to the valuation) is a relevant reference for a current measurement. We indeed believe that this notion, if applied, would be likely to best serve the predictive value of financial reporting. Rational economic behaviour is a reasonable assumption, which, in our view, should play a greater role in the application of IFRS in general (C28). The notion emphasizes indeed measurement from the entity's perspective, which we support (please refer to our answer to question 3).

However we observe that SFAS 157 is not consistent with this basis for conclusions, as the entity's perspective is absent from the standard and the market participant's view the only view retained, even if there is not any market or any market participant. Moreover SFAS 157 ignores whether selling an asset or transferring a liability belongs to "normal business considerations" or features "real-economic phenomena".

For the reasons expressed above, the principal market notion does not play a conceptual role in SFAS 157. It is meant as a practical way to identify observable prices.

Issue 5: Attributes specific to the asset or liability

Question 14: Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?

See our answer below.

Question 15: Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?.

We agree that transaction costs are an attribute of the transaction and not of the asset or the liability. However when the transaction is necessary to give the entity access to the economic benefits attached to the asset, and that any market participant would incur such costs, we believe that they need to be taken into account (for the same reasons that transportation costs are to be considered, i.e. taking into account the costs of access to a market). Otherwise we believe that the performance of the entity is likely to be distorted. Therefore if for clarity purposes current value of the asset or liability has to reflect the specific attributes of the asset or liability only (a matter of definition), then we believe that the asset or liability measured on the basis of an exchange scenario should be measured at current value less/plus transaction costs. We do not believe that accounting for the gain in value in one period and for the transaction costs in another when the gain cannot materialise independently from the transaction costs being incurred provides a fair representation of the entity's financial position.

We note that transaction costs include both unavoidable costs and costs of services decided by the entity. Most often advisors'cost falls into that category. We believe that a clear distinction should be made between the two, which SFAS 157 fails to do.

Issue 6: Valuation of liabilities

Question 16: Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?

No we do not. Here again we believe that financial reporting must be established from the entity's perspective. And from an entity's perspective the obligation embodied in the liability does not vary in any way because its credit risk (which heavily influences the credit risk of its liabilities) decreases or increases. Under the going concern assumption, the entity will repay the total amount due and no other scenario than settlement is appropriate. Reduction in liabilities can most often be generated only through heavy and lengthy negotiations, which would need to be considered as economic events of a subsequent period. This issue illustrates once more why we believe that valuing liabilities on the basis of a hypothetical transfer price is not relevant to depict an entity's financial position, as transfer of a liability is a very remote scenario.

Issue 7: "In-use valuation premise" versus "value in use"

Question 17: Is it clear that the "in-use valuation premise" used to measure the fair value of an asset in SFAS 157 is different from "value in use" in IAS 36? Why or why not?

Yes, we believe it is clear that "in-use valuation premise" used to measure the fair value of an asset in SFAS 157 is different from "value in use" in IAS 36:

- value in use is based on the use selected by the entity, independently from the use that other market participants might make (for example, as part of a group of assets specific to the entity, whether similar assets are accessible to other market participants or not);
- value in use is based on entity-specific data, without any adjustment (for example taking into account the effectiveness of the entity, even it is over- or under- performing the market).

However, we believe that value in use and in-use valuation premise have in common to value the asset in its current state, without projection of future enhancing costs and associated returns, even though rational economic behaviour would command any market participant to foresee such enhancements.

Issue 8: Fair value hierarchy

Question 18: Do you agree with the hierarchy in SFAS 157? If not, why?

No, we do not.

No concern arises from level 1 in the hierarchy. However, we disagree that level 2 should take precedence over level 3 in all circumstances.

Level 2, we believe, can call for estimates which might not be always reliable. Assets and liabilities, such as those financial instruments which have similar features and are traded in rather liquid markets, can be the subject of reliable estimates based on widely known and used models. In those cases, level 2 is appropriate and is already commonly used in practice. However, other assets and liabilities, which have distinctive features or characteristics, which are exchanged on markets where very infrequent transactions occur, cannot be estimated on such a reliable basis.

In the circumstances where level 2 is not reliable enough, we believe that measurement based on entity specific data is preferable. Also we disagree with the definition of level 3 which, once more, needs to be seen from the perspective of a hypothetical market participant who would have access to the entity's data. As we have already indicated above:

- considering hypothetical transactions in the absence of a market and market participants cannot lead to meaningful measurements;
- the entity should be considered representative of market participants, unless there is clear and objective evidence than it is not so. Adjustments indeed, if adjustments have to be made, must be made on some objective evidence. Otherwise, we believe that entity specific data are more reliable.

As a conclusion, we believe that the hierarchy for market-based current measurements should be limited to level 1 and level 2 where applicable (where indeed market prices can reasonably be featured). Where market prices cannot reasonably be featured, we believe that the market-based measurement objective loses relevance and in addition could lead to very unreliable estimates (unverifiable against economic reality). In those circumstances, measurement objectives should call for entity-specific data to be used.

Question 19: Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?

The different levels in the hierarchy are clearly described, however could prove problematic in practice. In particular, the notion of observable/ non observable prices could be interpreted very differently. Also, the downgrade of level 2 inputs to level 3 (SFAS 157.29) puts the resulting estimates at the same level as entity-specific data. We wonder whether SFAS 157 requires that they have priority over estimates based on entity-specific data.

Issue 9: Large positions of a single financial instrument (blocks)

Question 20: Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.

No, we do not agree. We believe that current market prices are relevant only if the scenario of a sale instrument by instrument is relevant. As soon as the volume of instruments to dispose in one sale is likely to have an impact on market prices, current market prices without any adjustment are no longer relevant in measurement. The necessary adjustment has to be made on the basis of an estimate. The difficulty in making the estimate is not a reason to retain a price that everybody knows is not a reliable measurement of the block value. That lesson we have learned repeatedly from the IASB. And if indeed a reliable measurement is not achievable, an estimate known as erroneous cannot be a satisfactory substitute.

Issue 10: Measuring fair value within the bid-ask spread

Question 21: Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.

Bid–ask spreads can appear in a set of various circumstances. Therefore we believe that SFAS 157 is right to leave room for judgement in that area, and let preparers assess what measurement is most in line with the measurement objective.

Question 22: Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed when another price within the bid-ask spread might be more representative of fair value? Why or why not?

No pricing convention should be set in the standard itself. This follows from our answer to question 21. However, on practical grounds, pricing conventions should be allowed to be designed by preparers for a given set of circumstances, in order to facilitate measurement and ensure consistency.

Question 23: Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?

Consistently with our answer to question 21, we believe that dealing with bid-ask spreads should be dependent on the transactions involved, i.e. dependent on what the spread economically represents. This excludes situations in which no market exits, or where no market is sufficiently organised and active.

Issue 11: Disclosures

Question 24: Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.

We have not considered SFAS 157 disclosure requirements in depth. However we have assessed at the time IFRS 7 disclosures related to fair value measurements as adequate. Similar disclosures could in our view be applied to non-financial assets and liabilities.

Issue 12: Application guidance

Question 25: Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why?

No, it does not, and the first reason is that as indicated above, we do not believe that currently IFRS have been prepared and are applied using the same measurement objective. In addition, we have also indicated that, in our view, a standard on how to measure current value should remain short and state principles only, while more specific guidance is provided at the level of each standard, once the relevant current measurement attribute has first been selected.

Question 26: Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts).

We have already noted that SFAS 157 provisions best apply when there is an active and liquid market. These favourable conditions are likely to verify even less in emerging or developing markets than in Europe or the US. The shortcomings we have identified for developed countries are hence likely to be even more critical in other areas.

Other comments

Valuation on the basis of the most advantageous scenario (in- exchange or in- use).

We disagree that the entity should measure its assets or liabilities on the basis of the most advantageous valuation, i.e. on the basis of in-exchange or in-use. We believe that this valuation should be made consistently with the scenario relevant to the entity, i.e. exchange or use. There again, we believe this type of requirement may distort performance reported by the entity. If indeed the in-use scenario is less advantageous, the entity will record a gain that has – in all circumstances and in all certainty – no chance whatsoever to materialise. Later the entity would report minimised profitability of its operations. This in our view is another distortion, because we believe that the profitability reported should reflect the operating condition of the entity, which is characterised by using its assets and not holding them for resale. Moreover we believe that measuring return on capital employed does not make much sense if returns are being measured on the basis of an in-use scenario while capital employed is measured on an exchange scenario. If the exchange scenario was to be adopted the stream of returns would die. Therefore we believe that the ROCE obtained is meaningless.