COMMITTEE OF EUROPEAN SECURITIES REGULATORS

EFRAG

35 Square de Meeûs
B-1000 BRUSSELS

Date: 31 August 2010
Ref.: CESR/10-888

RE: EFRAG's draft response on the IASB's Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*

The Committee of European Securities Regulators (CESR), through its standing committee on corporate reporting (CESR-Fin), has considered EFRAG's draft comment letter on the IASB's Exposure Draft (ED) *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements.*

We thank you for this opportunity to comment on your draft letter and we are pleased to provide you with the following comments.

CESR agrees with EFRAG that the proposed amendments would provide decision-useful information for users of financial statements. However, we believe that coming to estimates of the correlation between unobservable inputs is not always straightforward and could be complex for some entities.

CESR believes that the proposed analysis is very similar to the market risk sensitivity analysis currently required by IFRS 7 – *Financial Instruments: Disclosures* (paragraph 40). Although the IASB acknowledges that it would provide more informative information it does not require entities to take interdependency between risks into account. We think the Board should maintain consistency between both types of disclosure obligations by ensuring that the benefits of these types of disclosures outweigh the costs in both cases.

CESR believes that providing a sensitivity analysis for each type of unobservable input would result in decision-useful information for users of financial information that is easier to prepare for listed entities.

Our detailed comments on EFRAG's draft response are set out in the Appendix 1.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Fernando Restoy

Chairman of CESR-Fin

APPENDIX 1 – CESR'S DETAILED ANSWERS TO THE QUESTIONS IN THE ED

Question 1
Are there circumstances in which taking into account the effect of the correlation between unobservable inputs (a) would not be operational (e.g. for cost-benefit reasons) or (b) would not be appropriate? If so, please describe those circumstances.

CESR agrees with EFRAG that the proposed amendments would provide decision-useful information for users of financial statements. However, we believe that the proposed sensitivity analysis could be difficult to interpret for users and would require many disclosures about assumptions and correlations. We note in addition that coming to estimates of the correlation between unobservable inputs might not always be straightforward for some entities, especially smaller ones.

In paragraph BC60 of IFRS 7 – *Financial Instruments: Disclosures* the Board considered the complexity and higher costs when it decided not to require a similar sensitivity analysis concerning market risk as "[…] it could meet the second concern by requiring a more complex sensitivity analysis that takes into account the interdependencies between risks. Although more informative, such an analysis is also more complex and costly to prepare. Accordingly, the Board decided not to require such an analysis, but to permit its disclosure as an alternative to the minimum requirement […]"

We think the Board should maintain consistency between both types of disclosure obligations by ensuring that the benefits of these types of disclosures outweigh the costs in both cases. We believe that the cost/benefit profile should be similar for both disclosure obligations and would therefore encourage the Board to perform further cost benefit analyses and to align both set of disclosure obligations (depending on the outcome of such cost/benefit analyses).

In addition, we note in BC17 of the exposure draft "that the Board also considered whether to provide additional guidance about what is meant by the term 'significantly' […] and that it noted that assessing significance requires judgment and decided not to provide guidance about what is meant by it." If the Board were to decide to continue this project, we believe that it would not be clear to us how significance compares to the general materiality criterion in IAS 1 – *Presentation of Financial Statements* and whether significance should be evaluated on a global basis (ie. referred to the total accumulated difference for all assets or liabilities measured at fair value) or on a line by line basis (ie. referred to each type of asset or liability). We would therefore welcome further guidance on what is meant by "significantly". Our belief that there is a lack of clarity is reinforced by the amounts shown in example 1 of the exposure draft, in which some of the individual changes are not particularly material. The example creates at least the impression that "significantly" could mean an absolutely and relatively small amount as reported on the *hedge fund investments* line.

Finally CESR agrees that the wording proposed in paragraph 2 (a) of the exposure draft "*to a different amount that could have reasonably been used in the circumstances"* is clearer. The paragraph continues that "an entity shall not take into account unobservable inputs that are associated with remote scenarios". As a non-remote scenario is not necessarily a reasonable scenario we hesitate whether this is really a clarification. If entities were required to consider all types of scenarios with the exception only of remote ones, entities would end up providing a range of variations that would go beyond those being considered as reasonable. We would therefore believe that the Board should considering deleting this clarification.

Question 2
If the effect of correlation between unobservable inputs were not required, would the measurement uncertainty analysis provide meaningful information? Why or why not?

As explained above in our response to question 1 we believe that the proposed amendments would represents an improvement to the current standards. We however understand that this would be complex for a significant number of entities and believe that a separate sensitivity analysis for each unobservable input would provide reasonable information in line with what is already required in paragraph 40(a) of IFRS 7 – *Financial Instruments: Disclosures* for each type of market risk. A requirement that should be easier to understand and calculate (see also IFRS 7 paragraph BC59 (b) - (c)).

Question 3

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

Yes, see our response to question 2.