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EUROPEAN ASSOCIATION OF PUBLIC BANKS - EUROPEAN ASSOCIATION OF PUBLIC BANKS AND FUNDING AGENCIES

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Sir David Tweedie
Chairman
International Accounting Standards Board
30, Canon Street
UK - London EC4M 6XH

Brussels, 28 September 2009

<u>Subject</u>: ***Comment Letter of the Banking Industry on the IASB Exposure Draft on the Fair Value Measurement***

Dear Sir David,

The European banking industry represented by its four associations would like to thank the IASB for the opportunity to comment on the Exposure Draft (ED) on Fair Value Measurement. The members of the associations support the IASB efforts to improve the Fair Value Measurement Guidance and the aim to achieve a global approach to fair value measurement. It is desirable to have a principle-based document regarding fair value measurement. Such a document should form the basis for the implementation of measurement basis at fair value and fair value disclosures in the different standards.

Financial reporting should provide objective information which reflects the way the business is managed so as to provide information, which is most decision useful. Therefore, it is believed that the business model should be the primary criterion when deciding on the measurement basis for an asset or liability. Accordingly, fair value measurement should be required for instruments that are managed and performance of which is assessed on a fair value basis, while instruments where the business model is to originate and retain the instruments for the longer term as opposed to benefit from the short term market movements should be measured at amortised cost.

Even though it is understood that the ED is about "how" to fair value if fair value is required by other standards, it is difficult to comment on the paper ignoring the relevant aspects of fair value (where to measure at fair value) which is currently subject to other IASB consultations. Given the current uncertainty in the intention of the IASB and the interaction of the different consultations (e.g. the DP "Credit risk in Liability Measurement, IAS 39 review") the views expressed in this letter should be considered tentative and may change once the intention of the IASB becomes clear.

In the opinion of the industry, the ED fails to fulfill the objective of clarifying the definitions of measurement bases to be used for financial reporting purposes. In addition, a single rule cannot apply to every circumstance where IFRS requires the use of fair value. The relevance of fair value will depend on what is intended to be measured. Consequently, fair value in form of exit value is relevant only for instruments managed on a fair value basis where management involves opening and closing market risk positions or if the model is to measure value in liquidation. In addition, the exit price is conceptually sound only in well functioning markets. In other circumstances, the most useful information would be provided if entity specific cash flows are taken into account. Estimation of hypothetical values of hypothetical market participants would be more subjective that the entities' own judgment.

If the fair value is required e.g. for disclosure purposes for instruments not managed on a fair value basis, the purpose of the usage of the information should be defined before deciding on the fair value calculation (e.g. some sort of current value or value in use). The exact terms should therefore be used across IFRS where fair value is required.

The determination of fair value should be reviewed in light of the financial crisis. In general, the banking industry believes that the Exposure Draft has improved compared to the Discussion Paper (DP) that was based on the draft FAS 157. However, it is believed that there is still room for improvements. The views of the banking industry are expressed in the attached document as answers to the questions raised in the DP. We remain at your disposal to elaborate further on any of the issues.

Yours faithfully,

Guido RAVOET Secretary General	Chris DE NOOSE Chairman of the Management Committee	Hervé GUIDER Secretary General	Henning SCHOPPMANN Secretary General

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Comment Letter of the Banking Industry on the IASB Exposure Draft on Fair Value Measurement

Key points

- Business model to be the primary criterion when deciding on the relevance of fair value.
- Exit price only relevant when measuring instruments managed on fair value basis or measuring value in liquidation.
- Conceptually, exit price is sound in well functioning active markets. In other circumstances the most useful information would normally be provided if entity specific cash flows are taken into account
- The difference between exit and entry price could not be attributed to transaction costs only, as market participants consider other elements as well. The blockage factor as well needs to be taken into account.
- The settlement value and the transfer value of a liability is not the same. The nominal value is normally the best reflection of the value of an entity's own liability. Liabilities should be measured at fair value only to eliminate artificial accounting mismatch or when there is intent to buy back issued debt instruments before final maturity. Changes in credit spread during the life of a liability has no relevance to the income statement and should only be considered at initial recognition.
- Market participant should be defined as seller and/or buyer
- The most advantageous market should not be defined at the consolidated level.
- No reason to exclude financial instruments from in–use–valuation methodology.

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

Relevance of fair value measurement methodology

The starting point when deciding on the relevance of the fair value measurement methodology should be the business model as the relevance will depend on what is intended to be measured. Financial reporting should allow for evaluating past and current performance and predicting future cash flows.

- Where performance is measured and managed on a fair value basis involving opening and closing market risk positions then an exit value will be appropriate. In addition, the exit

price would be relevant if the model is to measure the liquidation value rather than measuring on a "going-concern-basis.
- In all other cases, we believe fair value does not provide relevant information and should not be required. Where the purpose is to measure performance as a basis for predicting future cash flows on a going concern basis, amortized cost is the best measurement basis.

If however, the fair value is required for disclosure purposes for instruments not managed on a fair value basis, the purpose of the usage of the information should be defined before the decision on the fair value calculation is taken. The most useful current value information will be provided by measures that take into account the purpose for which the item is being held and the opportunities and costs available to that entity. Fair Value Measurement should take into account the specific use that the entity makes of the asset. We believe that for assets not managed on a fair value basis, the exit price is only relevant when measuring the value in liquidation.

Defining fair value as an exit price in each circumstance may therefore be misleading. A greater understanding and clarity may be achieved if instead of using the term fair value, which concept is still not entirely clear, the exact terms were used across IFRS. Exit value should only be used where an exit-strategy is pursued.

Furthermore, exit price is only conceptually sound if there is a well functioning market. This means among other things that many participants must be on the market, information must be easily available and market participants should act rationally. However, in practice market conditions are often imperfect. Under imperfect market conditions, it may be more appropriate to hold a financial asset to maturity and collect the contractual proceeds than to consider selling it. This straightforward economic observation is reflected by level three of the fair value hierarchy. Entity specific cash flow expectations from holding the asset are normally much more relevant and useful than exit prices under such circumstances. For these reasons, it is not correct to define fair value as an exit price. The most useful information would be provided by taking entity specific cash flows into account.

Finally, the ED defines an "orderly transaction" as a transaction "that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (e.g. a forced liquidation or distress sale)". It is suggested to clarify the definition using words such as "well-functioning active market".

Exit price vs entry price

As stated in the comment letter to the DP the industry does not share the view that the difference between entry and exit price could be attributed only to transaction costs. The difference may involve more than just transaction costs as the market expectations consider other elements as well. The price may also differ on an individual item from the price of a group of items. The blockage factor should therefore be taken into account for some asset or liabilities. The difference between entry and exit prices may become even more extreme if there is no liquid market.

The ED stated that market participants should be both buyer and seller. There will however be very few markets where each market participant is both buyer and seller – some for practical reasons but others for regulatory reasons. Many markets would therefore be excluded from the definition. In most markets, the market participant is either a buyer or a seller. For example, for exotic derivatives, banks are buying protection on a wholesale market while selling to the retail market. Market participants should therefore be defined as buyer and/or seller or the Board should clarify its intentions in restricting markets only to those having intermediate dealers.

Transaction costs

Transaction costs are not characteristics of the asset or liability and are an attribute of the transaction. While these are excluded from the fair value measurement, transportation costs are to be included in price where measuring at fair value. However, the difference in definition between transaction costs and transportation costs is unclear in relation to financial instruments. For financial instruments, there are costs similar to transportation costs that are highly relevant to determining the most advantageous market. For example, equities may be traded as ADRs in the US market but as shares in a European market; arbitrage between the two takes account of the cost of transferring interests from one form to the other.

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?

a) As noted earlier, IFRS should use the precise terms defining the value to be used in each standard. We believe the replacement of the term as proposed by the IASB is appropriate.

b) The term fair value should not be used for something that is not fair value. The transfer value of a contract with a demand feature is normally different from the nominal value. As the value of a liability with a demand feature is not fair value (exit price), the wording of IAS 39 should be changed to specify what the value should be to avoid confusion, rather than excluding it from the scope of the Guidance.

Due to the proposed deletion of IAS 39 AG77, the reference to initial fair value in paragraph 43 should be amended to allow for an instrument that is not purchased and not managed on a fair value basis. With the elimination of AG77, the current ED proposes in BC28 and 29 that the difference between the entry and exit prices will be transaction costs, which will be excluded from the measurement. This is not the case for loans that are originated, as the exit market is a different market and therefore gives a different value than just the transaction cost.

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?

Entities may be present in several different markets. This may be the case for local as well as for globally active entities. Entities' sub-units (e.g. branches or subsidiaries) may also have several different principle markets. There may therefore be several markets for the same instrument within a consolidated entity as well as within a single entity.

We believe that it would be irrelevant, misleading and very time consuming should the requirement be implemented that the most advantageous market must be decided on a consolidated basis. Instead, each business that holds the same instrument should define the most advantageous market based on the special circumstances that apply to that business.

Furthermore, requiring a consolidation adjustment to standardise the most advantageous market in group accounts would add reconciling items between the consolidated performance and that reported in the segmental analysis, which would most likely be based on the divisions' results using their separate most advantageous markets.

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?

Yes, we believe the entity should determine fair value using the assumptions that the market participant would use in pricing the asset or liability in a liquid market. However, as stated above, we do not believe the definition of market participant as both buyer and seller is generally relevant in practice.

According to the ED, parameters that market participants would use, should be the input when performing a value-in-use calculation. As expressed previously in the banking industry comment letter to the DP, we believe that entity specific views should be seen superior in illiquid markets, where attributes considered by market participants would not be relevant for the entity. Market imperfections are underestimated in the ED.

The practicality of estimating hypothetical cash flows for hypothetical market participants should not be overestimated. Entities know their own cash flows but may have little knowledge of other entities, especially in markets that do not have standard contracts. These difficulties may lead to subjective assumptions with the result that financial reporting becomes less reliable than it might be, based on the entity's expected cash flows discounted at general market rates.

The industry is convinced that for instruments that are not traded, the entity specific parameters are superior as the entity has better knowledge of an asset that is not traded.

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?

In practice, there are many instances in which the notion of highest and best use are relevant when determining the value of financial assets. Typical examples are the systematic management of assets and liabilities, economic hedging for financial assets or the orderly acquisition of financial assets. On these grounds, we consider it as justified to allow the notion of value in use for financial assets as well.

As financial instruments are excluded from using the in-use-valuation methodology, argumentation that the exit price methodology is workable because an entity is able to choose between a transfer value and a value-in-use valuation does not address the concerns described in BC60. We do not see any reason to exclude all financial instruments from being valued on an in-use premise, in particular when markets are illiquid and given that there is no such restriction in SFAS 157. For contract financing and the associated securities, as an example, in-use-value is more appropriate than exchange value.

It is not clear under the ED, whether valuation of financial instruments would be allowed at the portfolio level and not only at the account level, which is the way that the instruments are managed and priced in practice. We believe that this should be allowed. The main results of this are in determining the valuation adjustments that reflect components of credit as well as the bid-ask spread. Allowance of portfolio valuations would also enable an alignment with US GAAP.

Moreover, portfolio level valuation adjustments are allowed under the current IAS 39 AG 72, which says: "*When an entity has assets and liabilities with offsetting market risks, it may use the mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate*"

In line with US GAAP, we believe that block discounts should be allowed for levels 2 and 3 of the fair value hierarchy. This enables more accurate valuation to be reflected in the financial statements about the reality of exiting a position.

<u>Question 6</u>

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?

We believe the guidance is not appropriate, as we perceive the guidance as contradicting the "going concern" and being more in line with the notion of value of liquidation, which is appropriate only if the purpose is not to measure performance but designate the liquidation value. The reason for our statement is that an entity could not both sell and use the same asset. The different usages are mutually exclusive and the value is therefore misrepresentative of a fair value measurement that considers the business model.

<u>Question 7</u>

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?

It might be relevant to measure trading liabilities that are issued separately to finance trading assets at a transfer price. Other liabilities should not normally be measured at a transfer value because the entity does not normally have the ability to transfer a liability. Liabilities normally fund assets. The implication of this is that the liability normally with the proceeds received when the asset is repaid. Therefore the nominal value is normally the best reflection of the value of an entitiy's own liability. This applies equally to the financing of financial assets and for the financing of other kinds of assets. As long as the business is not shrinking, the refinancing need will be constant even though single liabilities are extinguished. And if there is not intent to take market risks, the refinancing needs to correspond with the maturity and interest fixing period of the liability being prepaid or bought back.

Furthermore, we do not share the view of the IASB that the settlement value and the transfer value of a liability is the same. Normally it is not possible to transfer a liability, instead it has to be settled in accordance with its contractual terms or the borrower can make an offer of early redemption. Neither of these transactions take place in a market, although the early redemption price will have regard to prevailing market values.

<u>Question 8</u>

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?

<u>Relevance of fair value measurement for liabilities</u>

If the business model of an entity is to manage assets with the intent of holding, then the intent is normally to hold the liabilities until the final maturity of the corresponding assets. Therefore, in those circumstances the net present value created when buying back a present obligation and replacing it with a new one is close to zero (in a perfect market equal to zero). If the net present value of such an action is zero, one should question the relevance of measuring those liabilities at fair value.
We therefore believe that the fair value measurement of liabilities normally should be of relevance in two basic circumstances:

1. To eliminate artificial volatility in earnings when assets that are directly related to the liabilities are measured at fair value
2. When there is intent to buy back issued debt instruments before final maturity without intent to replace them with new ones. This is normally the intent in trading portfolios or other portfolios that are managed on a fair value basis.

Inclusion of non-performance risk in liabilities' measurement

It is important to make a clear distinction between "non performance risk" and credit risk in liability measurement – ie the difference between cannot pay and will not pay. In most instances failure to perform in accordance with a borrowing contract will be for reasons other than a fall in credit rating.

The fair value of funding liabilities is complicated by their intimate relationship with the financial health of the issuer. Debt issuances are often in significant tranches because it is uneconomic to make small issues. The blockage factor is therefore important; each issue will be priced at the marginal rate for that block and it will affect other debts of the same issuer if its leverage ratio changes materially. Issues of subordinated debt will tend to improve the credit risk of more senior debt and increase the risk for junior debt and equity.

Changes in the credit spread during the life of a liability have no relevance to the income statement even if the going concern presumption is in doubt or unless there is intent to redeem the liability before final maturity. A change in credit quality does not change the obligation of the borrower and the amount that is expected to meet the obligation until the parties enter negotiations to amend the contract.

The credit spread should be considered at initial recognition. However, the change in credit spread should not be measured as an item in the income statement as it would misrepresent the performance since worsening of the credit risk of an entity would lead to profit. Neither should the balance sheet reflect changes in the credit spread, although the information might be disclosed in the notes to the financial statements.

If an entity transfers a liability to another party, the latter has no control over the future behaviour of the transferor. The incentives of the transferor after having transferred the liability to another party may have changed; as he will not bear the consequences of any possible misbehaviour (compare that with the shareholder).

For subordinated debt instruments the opposite effect occurs. If a higher percentage of the total liabilities are subordinated, the subordination in itself is less important since a larger part of the liabilities will share the risk of having a part of the interest or the nominal amount transferred into retained earnings. The extreme is a liability side where no other than subordinated liabilities have been issued. In such cases, they will be as risky as senior deb. Another peculiarity of liabilities is that entity is normally unable to reduce its liabilities. If a liability is bought back, there will be a need to issue a new debt replacing the first one. This has an effect on the relevance of measuring liabilities in general to fair value, and especially on the relevance of measuring the non-performing risk of liabilities.

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 agree that the transaction price is normally the best fair value indicator at initial recognition. Day 1 profit or loss should normally not be recognized when parameters are not observable. The ED states that the difference in price between the retail market and the wholesale market could be a case where day one profit could be shown. We do not share that view without adjustments for the blockage factor. Many factors need to be considered when comparing the wholesale and the retail market that may explain the difference. Therefore, transaction price as initially stated normally is the best indicator of fair value unless there is clear evidence that the transaction has not been performed at fair value. In this respect we believe that (a) to (c) in paragraph 36 are some good examples where that might be the case, (d) however requires revision to take into account the blockage factor.

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 should clarify that where, due to either internal or external factors, it becomes impossible to fair value assets or liabilities and an entity is forced to change the business model (e.g. markets being no longer active) reclassification out of the fair value category should be mandatory.

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?

The IASB should develop a disclosure framework to review and consolidate the existing disclosure requirements. There are a number of new disclosures that are being recommended, which need to be reviewed in light of all of the other already burdensome disclosure requirements. We consider that the proposed level 3 disclosures, taken together is overly burdensome. A similar task has just been started by the FASB and we would encourage the IASB to join the FASB in the project to review its disclosures in a joint effort.

As a general remark, we believe that the proposed disclosure requirements may be understandable. But taken together, they will be too burdensome to apply, in particular level 3 related disclosures. There is also an obvious risk that the disclosures of level 3 items may become unbalanced since the focus on level 3 disclosures might mislead the reader of the disclosures to believe that the level 3 values are of more relevance than the level 1 and 2 disclosures even though they may represent a minority of the instruments being measured at fair value.

Care needs to be taken when reviewing the disclosure requirements as proposed in the ED. Else there is an obvious risk for duplication of the disclosure requirements

Details of assumptions are only relevant when entities have few assets. When holding huge portfolios where entities have to make thousands of assumptions, disclosing each individual peace of information separately would be overly burdensome and of minor value for users. Therefore, it might be irrelevant to give detailed information regarding all assumptions used. The disclosures should perhaps be more focused on the processes used when measuring at fair value.

In addition, disclosures of the fair value hierarchy should be required only for those assets and liabilities, which are measured at fair value in the income statement not for those whose fair value is only disclosed in the notes.

Preparation of disclosures as required by the standard for interim reports would be extremely burdensome. Disclosures should be driven by general principle for interim statements that only significant changes compared to last annual financial statements are presented.

Areas where the proposed disclosures should be removed:

The ED (paragraph 58) introduces the requirement that for 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, an entity shall disclose the fair value by the level of the fair value hierarchy. We reject this, as it would create costs and not lead to any added value for users but also as these instruments are not managed on a fair value basis and fair values do not represent the expected return obtained from these instruments. The requirement was already present in the ED for IFRS 7 but due to the objections of the IASB constituents, it was not included in the final standard.

The disclosures in paragraph 57c are not useful as the fair value disclosure should be for items that require a high degree of judgment, such as level 3 instruments, not level 1 and 2. In addition, the level 3 roll forward table showing the cash movement is useful for trading activities. This information is not currently gathered and its collection would involve substantial cost.

The ED (D12) states that when an entity recognises a gain or loss on initial recognition of a financial asset or financial liability at a fair value that differs from the transaction price, the entity shall disclose the gain or loss separately for each class of financial asset or financial liability by the level in the fair value hierarchy in which the fair value measurement is categorised. Our understanding is that the scope of this point will be limited to financial instruments that fall under level 3. We believe that the value of the information would not be less if the information could be displayed for the level 3 instruments on a consolidated way. We fail to see the merit in presenting the information broken down in different sub categories.

<u>Question 12</u>

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.

No, we believe that in-use valuation premise should be allowed to apply to financial instruments as it is in SFAS 157. In addition, the disclosure requirements in the standards are more burdensome than those required by SFAS 157.

We are in favor of FAS 157, especially in regards to the allowance of valuation on a portfolio basis and the allowance of blockage discounts. We do not agree with FAS 157 on the recognition of day 1 profit for level 3 instruments

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