

6 September 2010

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Dear Madam, dear Sir,

**Exposure Draft ED/2010/7 Measurement Uncertainty Analysis
Disclosure for Fair Value Measurements**

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the IASB's Exposure Draft on Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (ED/2010/7).

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline. CEBS welcomes the IASB's continued efforts to improve financial reporting and disclosure in a harmonized manner with the Financial Accounting Standards Board.

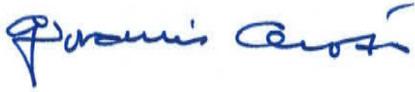
We note that the scope of the exposure draft (ED) is limited to the effect of changes in unobservable inputs and, in that context, to adding a specific requirement to take into account the effect of correlation between unobservable inputs as part of measurement uncertainty analysis disclosures for fair value measurements categorised within Level 3 of the fair value hierarchy. CEBS sees merit in this amendment, as it should help users better assess the level of uncertainty related to fair value measurements using significant unobservable inputs.

In the appendix CEBS discusses certain aspects of the ED that could be further improved together with other, more general amendments to fair value measurement disclosures that the IASB should consider. CEBS does not explicitly address the questions raised in the ED.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Autorité de Contrôle Prudentiel) - in charge of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on

Accounting under the direction of Mr. Ian Michael of the UK FSA. If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Michael (+ 44.20.7066.7098).

Yours sincerely,

A handwritten signature in blue ink, reading "Giovanni Carosio". The signature is written in a cursive style with a prominent initial 'G'.

Giovanni Carosio
Chair, Committee of European Banking Supervisors

Appendix - Detailed comments

As mentioned in the covering letter, we note that the scope of the exposure draft (ED) is limited to the effect of changes in unobservable inputs and, in that context, to adding to a specific requirement to take into account the effect of correlation between unobservable inputs for fair value measurements categorised within Level 3 of the fair value hierarchy.

CEBS sees merit in the aim of improving measurement uncertainty analysis disclosures through this proposed amendment and welcomes in particular the IASB's move to clarify the term "reasonably possible alternative assumptions" (used in ED/2009/5 and in IFRS 7) which is subject to interpretation and diverse practices, potentially undermining comparability across entities.

However, it is felt that the proposals could be further clarified in some respects:

- The notion of "correlation" needs to be clearly defined, as this is a statistical term, which can have specific implications in particular circumstances.
- If the exact aim of the new proposal is to assess the potential impact of different combinations of inputs (as described in paragraph BC 20) and take into account interdependencies between inputs (BC4), those wordings should be used up-front in the text of the ED in order to clarify the concept of "correlation".
- Subject to further clarification of the notion of correlation, CEBS believes that:
 - there should be additional disclosure on the way that the specific effect of correlation has been taken into consideration in sensitivity analyses (the ED introduces this new proposal without requiring any specific disclosures); and
 - there should be disclosures on the level of judgment that has been applied to assess the relevance (or otherwise) of correlation effects.

Moreover, consideration should be given to whether the analysis should be extended to fair value measurements categorised within Level 2 of the fair value hierarchy. There may be circumstances where the combinations of observable and non-observable inputs for Level 2 fair value measurements could lead to significant changes and uncertainty in fair value measurements.

Although the IASB compares proposed fair value measurement disclosures with IFRS 7 market risk sensitivity analysis disclosures in the ED (BC22-BC24), CEBS believes that it could be useful for the IASB to eliminate overlap where possible, so disclosures on financial instruments as a whole are as clear as possible for users of financial statements.

More generally, CEBS suggests that, instead of adding very specific disclosure requirements in this project, the IASB should adopt a comprehensive approach and consider every disclosure requirement in the broader context of the complete information to be provided in the notes to accounts. As part of such a comprehensive disclosure project, the Board should pursue an objective of enhancing comparability among entities.

Notwithstanding a reference to "significance" in IFRS 7.27B, we would like to raise an issue relating to the description of "significance" at the end of paragraph

2(a), and in particular whether this is intended to capture a different concept to that of "materiality", which is used elsewhere in IFRS. If not, to avoid confusion, it may be preferable to use the same concept.

In addition, CEBS notes that the criteria proposed for judging "significance" provide a high threshold for the disclosures to be prepared given that "significant" in relation to total assets or profit or loss could be a very large number for major international banks. It would perhaps be more appropriate (and more in line with the illustrative example provided by the IASB in the ED) to consider significance of fair value movements in relation to individual assets or classes.

CEBS has also identified other disclosures on fair value measurement that could be further enhanced in the final amendments to disclosure requirements:

- Information about levels of fair value measurements should be required both by categories (i.e. "IAS 39 portfolios") and by classes of financial instruments, and should not be limited to gains/losses for the period, but also include cumulative amounts (i.e. 'stocks' of gains or losses accumulated over time). This information will enable users: i) to understand whether Level 2 and Level 3 gains and losses have been generated by trading activities or by the other business activities, and ii) to assess the impact of fair value gains and losses in regulatory own funds.
- Disclosures on fair value adjustments could be enhanced, including information on types of adjustments applied (such as model, bid/ask or credit risk adjustments) and related amounts accounted for.

Finally, CEBS notes that the IASB has re-deliberated on a number of issues further to the comment letters received on the ED 2009/5¹. For some of these issues, such as blockage factors for example, CEBS believes (as expressed in the Committee's comment letter on the ED2009/5) that these should be considered further in due course.

¹ These are summarised in the document *Developing common fair value measurement and disclosure requirements in IFRS and US GAAP*, issued by the staff of the IASB in July 2010.