



13 December 2010

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Dear Sir David Tweedie,

**Re.: Staff Draft of the Forthcoming IFRS on Fair Value Measurement**

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the staff draft of the forthcoming IFRS on fair value measurement.

The AOSSG currently has 24 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Thailand, and Uzbekistan.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Individual member standard setters may choose to make separate submissions that are consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard setters may hold.

We appreciate the effort the IASB made to improve the fair value measurement standard, and generally support the current proposals on the staff draft of the forth coming IFRS. However, we have a few concerns which are outlined below.

**Unit of account**

Since the current proposal relies heavily on the other IFRSs to determine the unit of account, we suggest the Board reassess the unit of account guidance that currently exists in the IFRSs. For example, lack of unit of account guidance for financial instruments could result in financial instruments always being measured on an instrument-by-instrument basis even when market participants would not transact at that level.

**Measuring the fair value of a group of financial assets and financial liabilities**

According to paragraph 50 of the Staff Draft, when the entity manages a group of financial assets and financial liabilities on the basis of its net exposure, the entity is permitted to apply an exception which permits an entity to measure the fair value of a group of financial assets

and financial liabilities on the basis of the price that would be received to sell a net long position for a particular risk exposure or to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date. However, paragraph 55 of the Staff Draft notes that the exception in paragraph 50 does not apply to financial statement presentation. We suggest the Board to provide application guidance on how to allocate and present the fair value of the group of financial assets and financial liabilities on the face of the statement of financial position.

### **Blockage factors and other premiums and discounts**

We believe that the proposal on blockage factors is not clear and will lead to diversity in practice. We suggest the Board to clarify the difference between the blockage factors and other premiums and discounts. For Level 2 and Level 3 fair value measurement of financial instrument, it's not clear whether and when premiums and discounts other than blockage factors may be applicable, and how entities can distinguish the liquidity adjustment that is specific to inactivity of the market for the instrument from adjustment related to the aggregate size of the holding.

### **Highest and best use**

We have concerns in applying the highest and best use notion in the fair value of certain non-financial assets. We believe the nature of the non-financial asset and the economic realities of the business should be given due consideration in applying the notion. For example, whilst it may be apt to apply the concept to investment property, we believe it is not appropriate to fair value property, plant and equipment such as plantation / factory land assuming its highest and best use by market participant is different from its current use. Land used for agriculture, residential or commercial purposes would have different best use values. We are doubtful of the wisdom of imputing a value to the plantation / factory land that is different from its current use because, in our view, current use values provide the most useful information to users about the entity's future cash flows, and should be the first and the foremost factor to consider in determining the fair value of a non-financial asset. Therefore, to use a value based on other than current use would be confusing to users. In addition, we are concerned about any potential manipulation in earnings management that may arise from the notion of highest and best use which will most likely require the use of judgment by management.

In this regard, we urge the Board to reconsider the applicability of highest and best use notion to all non-financial assets. However, should the Board decide to proceed with the proposals despite the concerns raised, more prescriptive guidance may be required in applying the notion of highest and best use to mitigate the potential manipulation that may arise.

### **Measurement uncertainty analysis disclosure**

We understand that there is uncertainty inherent in the fair value measurements categorized within the Level 3 of the fair value hierarchy. Conceptually, we understand the importance of disclosing the measurement uncertainty to provide users with better information. However, the proposed disclosure may not meet the objective. We also have great concerns over the operational difficulties. Without clear definition of what the measurement uncertainty is and how it is measured, which we believe is very difficult, the disclosure would rather lead to misunderstanding for users of financial statements. The cost that entities will bear to meet the disclosure requirements would significantly outweigh the benefit that users of financial reports would gain from the information disclosed. Therefore, we do not support the

proposed measurement uncertainty analysis disclosure. If the Board proceeds with the proposals, we suggest to provide either guidance on their application to non-financial assets, or exclude non-financial assets from the scope of such disclosure.

## **Operational Challenges**

We have great concerns over the operational challenges for fair value measurement. We believe that converging on high-level principles related to defining fair value does not go far enough. Having different applications of fair value in different jurisdictions will impair the quality of fair value information. The hierarchy of the fair value reflects the activity of the markets. The lower the level is, the more challenging it is to measure the fair value, and the less relevant the information is. Without clear and stringent guidance for application, fair value measurement can be utilized as a means to manipulate earnings, which makes the information neither reliable nor relevant. Although the problems encountered by different jurisdictions may be similar, the frequency and extent of occurrence of these problems in the emerging and transition economies are a lot greater, which pose greater difficulties for these jurisdictions to comply with the standard consistently. Therefore, there's a strong demand among AOSSG members for application guidance, particularly on a couple of issues:

- a) When using quoted price provided by a third party, what measures should be taken to determine that the quoted price is developed in accordance with the IFRS?
- b) What are disorderly transactions and how to identify them?
- c) How to measure the fair value using the price within the bid-ask spread that is most representative of fair value? How to justify that the price is most representative of fair value, especially when the spread is wide?
- d) How to measure the fair value of certain items, especially when there's no active market and a valuation technique is required? These items are: stock with long-term suspension, unquoted equity investment, non-performing assets held by asset management companies, equity instrument with restriction on sale, derivatives with credit risk adjustment, bearer biological asset, plantation land, conversion features (options) embedded in a private company's convertible preference share.

We understand that in response to the recommendations of the Financial Stability Forum, the IASB Expert Advisory Panel issued *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* in October 2008. To help those applying the forthcoming fair value measurement guidance, particularly in emerging and transition economies, the IASB staff is developing educational material which will be published shortly after the IFRS on fair value measurement is issued. We suggest that the Board clarifies the relationship between the fair value measurement standard, Expert Advisory Panel guidance and the educational material, to assist consistent application of the standard.

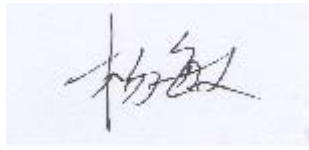
The AOSSG is keen to play a key role in the development of a global set of high quality financial reporting standards and trusts that the Board finds our comments helpful in progressing converged standard for fair value measurement.

If you have any queries regarding any matters in this submission, please contact us.

Yours sincerely

Handwritten signature of Ikuo Nishikawa in black ink.

Ikuo Nishikawa  
Chairman of the AOSSG

Handwritten signature of Yang Min in black ink on a light blue background.

Yang Min  
Leader of the AOSSG Fair Value  
Measurement Working Group