[Date] November 2009

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

Dear Sir David Tweedie:

Re: Exposure Draft *Fair Value Measurement*

…

Sincerely yours,

[Name]___________

Chairman
Asian-Oceanian Accounting Standard-Setters Group

Draft Proposal to Enhancing Fair Value Measurement

WG on FVM, Asian-Oceanian Accounting Standard-Setters Group

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?

A: The definition is appropriate. Meanwhile, we propose the Board to:

1. Clarify in the upcoming standard or basis for conclusion that the cost approach is consistent with the exit price notion of fair value;
2. Clarify in the upcoming standard or guidance that in the case of applying the level 3 inputs of valuation techniques, whether inputs derived from a period is inconsistent with provisions of measurement date in the definition?

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 for 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: it is appropriate to replace the term "fair value" in (a) while it is not appropriate to give up replacing the term "fair value" in (b).

To unify the requirements for fair value measurement in the existing IFRS, the ED shall not retain a different measurement basis as defined in paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement* under the same name of fair value. If the measurement of a financial liability with a demand feature is not considered to reflect the IASB's intended fair value measurement objective, a more appropriate term other than fair value should be used.

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?

A: It's inappropriate to use the most advantageous market as the reference market of fair value measurement. We noted that using the most advantageous market from the aspect of reporting entity may overestimate fair values. We also concerned that, according to existing provisions in the ED, it may be difficult to distinct the most advantageous market from other markets and distinct market participants in most advantageous market from those in other markets. Therefore, we recommend the use of principal markets as the reference market in fair value measurement.

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?

A: The description of market participants is inadequate.

About the general principle of identifying market participants, we propose that the Board should refer to Paragraph 26 of *Statements of Financial Accounting Concepts No.7 (SFAC 7)*, and establish a primary principle to identify market participants, such as, ***the activities of market participants result in the price of measured assets or liabilities, being an integral part of the market pricing mechanism***. Then market participants can be identified in accordance with specific characteristics in Paragraph 13 of the ED.

About the specific provisions in paragraph 13 of the ED, we propose a clarification that market participants are presumed to have the same knowledge as the reporting entity in making decisions about fair value, i.e., there is no information asymmetry.

In addition, since the Board is going to release the revised IAS 24 *Related Party Disclosures (IAS 24R)*, in considering the identification of market participants, we propose that the Board clarify in Paragraph 13 of the ED: ***In the context that government-controlled entities are pervasive, entities applicable to the exemption in IAS 24.25 (government-controlled entities) can be considered as market participants***.

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?

A: Proposal (a) and (b) are appropriate. However, we suggest that the IASB should explain more fully why the highest and best use notion is not relevant for liabilities.

On proposal (c), we propose a further deliberation by the Board to applying of the "in use" premise for fair value management of portfolios of financial instruments. In addition, we recommend the Board add the principles of valuation unit identification when the "in use" premise is applicable to increase the relevance between fair value measurement and specific assets groups or consider the appropriate unit-of-account for financial instruments as part of its IAS 39 replacement project.

We also recommend that the fair value of a portfolio of financial instruments should include premiums that the market is willing to pay because this is consistent with the concept of highest and best use for assets.

On terminology, we suggest the IASB replacing the term "in use" and "in exchange" with references to measuring an asset either as part of a group of assets or on a standalone basis because the proposed term in the ED may be misleading on the aspect from which the premises are defined.

Question 6

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?

A: We acknowledge that the proposal is in line with the principles and framework of fair value measurement. However we noted that it may be hard for the reporting entity to change the current way in which measured asset is used to the highest and best use for some reason such as lacking adequate experienced management team, without proper business model. We think that the change is neither physically possible nor financially feasible. We recommend further deliberation before the Board decide to include the incremental value in fair value.

Question 7

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?

A: The proposal is generally in accordance with the principle proposed in the ED. We recommend further deliberations on,

a) Whether fair value is the appropriate measure for liabilities in all circumstances;

b) Whether estimated cash flows should reflect entity-specific factors in estimating the fair value of performance obligations at level;

c) Whether the proposal is practical in various market circumstances.

Question 8

The exposure draft proposes that:

(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfill 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?

A: We recommend the IASB fully consider the outcome of Discussion Paper *Credit Risk in Liability Measurement* before making any decision on proposal (a). We noted that the point appeared to be whether fair value is the appropriate measurement basis for many liabilities. Therefore, we proposed an integrated consideration of how to measure the fair value and when to use the fair value.

In addition, we propose the Board further explain the reason why it considers the transfer restrictions in fair value measurement for assets but not for liabilities in BC75 of the ED.

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?

A: .We generally support the proposal. However, we believed that any gain or loss that results from initially measuring the fair value of a financial asset or financial liability should be recognize at an amount different from the transaction price, if that initial fair value is determined other than by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

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?

A: The guidance appropriate and sufficient. However we propose the Board identify in the part of valuation techniques in the ED that *the provisions for valuation techniques in the standards aim to address fair value measurement for financial reporting and shall not apply to the valuation performed by valuators in accordance with the professional valuation standards*. We also encouraged the IASB to liaise with the International Valuation Standards Board (IVSB) to identify whether any clarifications or amendments to terminology are warranted and enhance coordination with the IVSB in this field.

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?

A: We generally supported the proposals. However, we noted some disclosure may be excessive and inconsistent with the underlying disclosure principle of IAS 34. We propose the IASB reconsider disclosure requirements in paragraph 57(c), 57(d), 57(e), 57(f), 58, 60(a) and 60(b) and eliminate excessive and inconsistent disclosure requirements.

We also propose to add the following requirements for disclosure,

- The description of the market status to facilitate users' better understanding of the information provided through fair value measurement. Particularly, in a volatile market, such disclosure can avoid misleading fair value information for investors' decision-making.
- The disclosure and note of limitations on fair value measurement. For example, *fair value as a reflection or simulation to market pricing has its limitations; fair value information may fail to meet users' needs due to some potential failures of the market.*

Question 12

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?

(a) Scope;

(b) Reference market;

(c) Highest and best use;

(d) Blockage factors;

(e) Day 1 gains or losses;

(f) Valuation premise and financial instruments;

(g) Measurement of liabilities;

(h) Measurement of equity instruments;

(i) Wording changes.

A: All these proposals are appropriate except (b), (e) and the difference between current and highest and best use in (c).

Question 13

Do you have any other comments?

A: We have two other comments,

- We disagreed with the conclusion in BC 109 of the ED. We propose the IASB provide guidance for emerging market economies. Appendix IV summarizes some special problems the emerging market economies may encounter in the application of FVM.
- We encourage the IASB provide further guidance like educational guidance issued by Expert Advisory Panel in October 2008.