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30 March 2007

Jon Nelson
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Via email: CommentLetters@iasb.org

Re: Invitation to Comment - Discussion Paper – Fair Value Measurements

Dear Mr. Jon:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the IASB's Invitation to Comment - Discussion Paper – Fair Value Measurements. CGA-Canada is a leading accounting organization with 68,000 members and students in Canada and internationally. Any proposals leading to development of new or amendments of existing standards are of considerable interest to all our members.

We will preface our discussion with a general comment and then proceed to provide direct comments to 27 specific questions (*italics*) posed by the Board.

General comment

SFAS 157 is an excellent document and provides substantial information. We do however; harbour one major concern in that the document, while discussing fair value measurements, does not clearly distinguish whether a particular paragraph pertains to financial assets or non-financial assets. Further, the discussion of a portfolio of assets may leave the reader confused because the fair value issues needing to be addressed for financial assets are different from non-financial assets.

Whereas, current guidance on measuring fair value is dispersed throughout IFRSs (ie the guidance is separately identified for financial assets and non-financial assets), the IASB now has an opportunity to alleviate that limitation.

We suggest that the proposed document should clearly and separately discuss financial assets and liabilities and non-financial assets.

Question 1 - In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or Why not?

We agree with your view that a single source of guidance for all fair value measurements will serve as a central repository of all issues addressing fair value measurements and that consequently, would lead to an increased reporting consistency. It would also serve as a coaching/teaching aid to enhance/broaden the overall understanding of fair value measures and when and how to apply them in an entity. Generally, it would “codify, clarify and simplify existing guidance that is dispersed widely in IFRSs”.

Question 2 - Is there fair value measurement guidance in IFRSs that you believe is preferable to the provision of SFAS 157? If so, please explain.

We prefer the guidance in IFRSs related to a group of non-financial assets (ie IFRS’s cash generating unit’s value in use versus in-use valuation premise of SFAS 157) because the fair value measurement arrived at is how an entity specifically uses the group of assets; not how a hypothetical market participant would use them. Entity specific value is necessary because the fair value reported is for the entity; not for a hypothetical market participant.

Question 3 - Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or Why not?

The term ‘exit price’ embodies an inherent belief that no asset lasts forever. It depicts the amount received if the asset was sold in an orderly manner in a primary market; not a forced sale. Therefore, we agree that the ‘exit price’ reflects fair value. The term exit price requires consideration of bid-ask price spread which is addressed in Question 21.

Question 4 - Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, so you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.

Yes, we believe that an entry price reflects flows of economic benefits into or out of the entity. Economic theory suggests that an investor is prepared to pay a price for an asset based on risk/reward expectations. That said; there is always the chance that a market participant is able to purchase an asset at otherwise normal market prices and earn greater than market returns. However, as a basis for determining fair value, entry price is ‘reflective’.

Yes, we also agree that different markets would entail different prices for the same instrument.

Question 5 - Would it be advisable to eliminate the term ‘fair value’ and replace it with terms, such as ‘current exit price’ or ‘current entry price’, that more closely reflect the measurement objective for each situation? Please provide a basis for your views.

We would recommend that IASB discontinue the use of the term 'fair value' and instead replace it with terms such as 'current exit price' or 'current entry price' because the term fair value, in certain situations, implies different meaning. For example, a private equity holder holds 95% of shares and one minority holder holds 5% shares. Generally, the minority interest would attract a "minority discount" but in a litigation scenario (family dispute) a court in assigning a fair value might not include minority discount; instead, it might assign a premium, ie a higher 'fair value' because the controlling shareholder would end up with complete control. Thus, under certain situations, the term 'fair value' differs from the term 'fair market value'.

Question 6 - Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.

Based on the SFAS 157 discussion on 'exit pricing' in paragraph 16 and 17, it would be our understanding that measurement objectives are consistent with those in IFRS. It would be our understanding that practice is consistent with IFRS.

Question 7 - Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?

We agree with the market participant view articulated in SFAS 157. We would prefer to have terms such as 'in a hypothetical transaction' by 'an assumed buyer' included in the definition.

Question 8 - Do you agree that the market participant view in SFAS 157 is consistent with the concepts of 'knowledgeable, willing parties' and 'arm's length transaction' as defined in IFRSs? If not, how do you believe they differ?

Our response is the same as in Question 7. The definition used in Paragraphs 42 to 44 of IAS 40, includes the terms such as assumed buyer and hypothetical owner but it does not include the term 'in a hypothetical transaction'.

Question 9 - Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?

We agree with the preliminary view of the IASB "that the term 'transfer' more accurately describes the fair value measurement objective of the IASB" because the liability continues; it is not settled with the counterparty. Also, because the price includes the cumulative impact of factors such as credit risk, interest rates, current market value of like instruments, etc.

Question 10 - Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?

We believe that in practice both objectives would lead to same measurements, as a practitioner is required to use professional judgements and include all market factors applicable to the measurement issues at hand.

Question 11 - In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.

We believe that where there is a difference between the transaction price and the valuation performed using inputs that are not observable in a market, the transaction price is a superior indicator of the fair value because it conforms to the definition of fair value, ie between knowledgeable, willing, able, not forced to sell ... parties etc.

Question 12 - Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.

A group of dissimilar financial assets measured at the portfolio level entails portfolio risk, thus the fair value of the portfolio would be less than the sum of the fair values of individual components of the portfolio. In practice, a sale of an individual instrument would impact the value of the combined effect of the remaining portfolio.

In other words, if an entity were to add up the in-exchange value of individual instruments in a portfolio of financial assets; the value so obtained would not include market-observed input related to portfolio-risk. Thus, the value so obtained would not be the fair value of the portfolio.

Question 13 - Do you agree that a fair value measurement should be based on the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?

If the asset is traded in multiple markets, the market on which an asset is principally traded provides more liquidity. For example, shares of Microsoft are traded at both the New York Stock Exchange and Nasdaq Stock Exchange; the valuation should be based on the market that provides the most liquidity or the market that entity would normally use to effect such trades.

Question 14 - Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why not?

We agree that the fair value measurement should consider attributes specific to the asset or liability that market participants consider in pricing the asset or liability such as, with respect to an asset, its physical location as a component in a system, physical condition, and performance capacity and, with respect to a liability, any contractual obligations, etc.

Question 15 - Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why not?

We believe that a transaction cost is not an attribute of the asset or liability. The transaction cost depends upon the price charged per the price-schedule or amount of effort expended by the broker or the agent. For example, a full service broker would charge more than a discount broker whereas a full service broker is expected to provide more value added service than a discount broker. An entity would contract with a full service broker if it deems to need extra services.

Question 16 - Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?

We agree that all forms of risks, eg non-performance, credit risk, etc. should be considered in measuring the fair value of a liability because not doing so would result in not a fair value of the liability.

Question 17 - Is it clear that the 'in-use value premise' used to measure the fair value of an asset in SFAS 157 is different from 'value in use' in IAS 36? Why or why not?

The Paragraphs 42 to 45 of the Discussion Paper, clearly differentiate between the terms 'in-use value premise' and 'value in use'.

Question 18 - Do you agree with the hierarchy in SFAS? If not, why?

We agree with the hierarchy in SFAS because it provides structured guidance to practitioners in the application of fair value accounting.

Question 19 - Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?

Generally the levels are clear, however, it would be useful to include the principles that are behind the valuation techniques/tools for each level. For example, a principle for level 1 may be built around the liquidity of a given instrument.

Question 20 - Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.

At a shareholder level, the blockage and marketability discounts are legitimate factors that should be considered in valuation of fair value. A shareholder with a relatively large position in a well diversified and very liquid market would definitely lower the price if all holdings are put-up for sale at the same time. It is unlikely that a going concern would, in such a circumstance, put up for

sale all its holdings in a particular stock at the same time without incurring a lower price (ie an entity would sell in an orderly fashion). Therefore, under such circumstance, we agree with the prohibition on the use of blockage factor.

However, we can envision certain circumstances, where blockage discounts should be applied. Generally, it should be applied in a going concern private company shares traded in relatively illiquid markets. Blockage factor should also be used in liquidation sale or going out of business sale.

Question 21 - Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.

At level 1 of the hierarchy, the bid price represents the price at which the dealer is willing to buy and the ask price represents the price at which the dealer is willing to sell, ie the bid-ask spread is determined by the market. As long as the spread remains and the market participants stick to their bid-ask prices, no transaction would take place, ie fair value is not determined. Thus, in the absence of any movement by either side, the mid-spread price represents a best compromise at which point there is a greater possibility of the hypothetical transaction taking place.

Therefore, we agree that fair value measurements should be within the bid-ask spread.

Question 22 - Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another within the bid-ask spread might be more representative of fair value? Why or why not?

We disagree with a rigid pricing convention. Depending upon the liquidity, the fair value might tend to move away from the mid point, ie it might move closer to bid or ask price. We favour a pricing convention, based on a particular circumstance, that provides more representative fair value within the bid-ask spread.

Question 23 - Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?

The bid-ask pricing guidance should most definitely apply to level 1 of the hierarchy. At other levels, it should apply whenever possible. The concerns are around liquidity and thinly traded markets. Bid and ask prices become less valuable when there are few market participants and trading volume is light. It is difficult to get price confidence in these situations.

Question 24 - Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.

The disclosure requirements of SFAS 157 are quite robust in the sense that the readers of the financial statements see the fair value measurement impact and understand the valuation method. The disclosure requirement also provides information about the hierarchy level that we consider necessary for a large entity corporation.

But SMEs might find the amount of disclosure excessive and complex. This issue needs further study.

Question 25 - Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why.

We agree that the Appendices A and B of SFAS sufficiently illustrate the standards principles and provisions as they would under IFRSs.

Question 26 - Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please provide what additional guidance you believe is needed and the most effective way to provide this guidance (for example, thorough additional implementation guidance or focused education efforts).

The fair value hierarchy provides a structure that we believe is applicable to all economies, ie developed, developing, transitional, and emerging. The major difference is that in developed economies more trades would be experienced at level 1 of the hierarchy whereas other economies would experience more trades in levels other than 1. As the other economies develop, the fair value determination at level 1 of the hierarchy would increase.

Nevertheless, for now, additional guidance for practitioners in developing, emerging, and transitional economies would definitely help in the application of the principles of fair value measurements.

Question 27 - Please provide comments on any other matters raised by the discussion paper.

We suggest that the proposed Exposure Draft address the following issues:

- In the current economic environment, the use of hedges to manage risk is increasing in use. Fair value measurement should consider the impact of hedges in developing these measurements.
- As described in the general comment, the paragraphs applicable to fair value measurements of both financial assets and non-financial assets should be addressed firstly, then separately for issues that are most relevant to only financial assets (eg portfolio) and issues that are most relevant to non-financial assets (eg portfolio/group/pool of non financial assets, dual use assets, etc.) and be clearly segregated.

For example, a non-financial asset can be used either as a stand-alone or used as a component in a cash generating unit. If used as a component, should the fair value of the cash generating unit be used which includes the fair value of the asset? Should only the standalone value be used if the entity intends to sell it as such? Additional issues arise related to dual use non-financial assets. For example, a television set that is designed to be used as a computer monitor as well. Fair value issues arise in instances such as when it is used as a stand alone either as a TV or a monitor (assuming fair value of an equivalent TV and a monitor are different) or as a component of a security monitoring system that is purchased or in-house developed.

- The proposed document should provide guidance related to the frequency of fair value measurements like the actuarial valuation for employee benefits.

We look forward to participating in future round-table discussions leading to the development of an exposure draft on fair value measurements.

Should you wish to discuss or require elaboration on any of the items presented above, please do not hesitate to contact Amar Goomar at agoomar@cga-canada.org.

Sincerely,



Anthony Ariganello, CPA (Delaware), FCGA
President and Chief Executive Officer