BNP PARIBAS

Eddy Wymeersch
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Re: Draft CESR Consultation: "Fair Value Measurement and related disclosures of financial instruments in illiquid markets"

Dear Mr. Wymeersch,

We are pleased to provide our comments on the above Consultation Paper (the "CP").

We welcome the opportunity to contribute to the discussion to CESR's CP regarding Fair value measurement and related disclosures of financial instruments in illiquid markets.

BNP Paribas is very interested in this subject, as we currently have more than 50% of our two trillion of assets at fair value. Therefore, we believe that we are well qualified to contribute to this meaningful discussion.

Our understanding of the CP is to help users in their application of IFRS. There is a concern that arises from such a paper that this could be considered as additional guidance. This result would be in contradiction to Principle 20 of CESR's Standard No. 1 on "Financial Information: Enforcement of standards on Financial Information in Europe", dated 12 March 2003, as it is responsibility of the IASB and IFRIC to set standards and formally interpret them. Therefore, the CP should be addressed to the IASB and not to preparers of financial statements, as the IASB should be the body to respond to accounting issues. If the CP was seen as additional guidance, this could result in fair value being accounted for differently in Europe and could require European organizations to prepare disclosures over and above their non-European peers, placing them at a disadvantage to compete on an international level.

This CP duplicates the work that the IASB is doing through it Expert Advisory Panel (EAP) on the valuation of financial instruments in inactive markets. Therefore, CESR should provide its ideas as input to the EAP rather than to produce separate best practice guidance itself.

Because IFRS are principles based, there is a need for flexibility in their application. Principles based standards should not result in a one-size-fits-all accounting model. As noted in the paper, the flexibility of the IASB's principles based standards, compared to a rules based approach, allow for a range of interpretation depending on the different circumstances of the transaction under consideration, which is critical, as determining the fair value for illiquid financial instruments requires careful judgment to be applied.

In relation to active and non active markets, more work needs to be done to better define the differences between these two markets for fair value measurement. This is where the IASB needs to develop principle based requirements and terminology that will enable preparers and others to clearly understand what the measurement objectives are and what is meant by the various terms used.

Although it is not necessary for CESR to require more disclosures, we do agree that preparers need to take great care in forming clear disclosures that assist users to understand the risks and uncertainties. We disagree with the proposed detailed tabular form of disclosures that may or may not prove relevant for all types of institutions. Additional disclosures would be costly to produce and may not be relevant or provide decision useful information for the users of the financial statements. Our suggestion would be for CESR to work with the IASB on its first year review of IFRS 7 disclosures and make any recommendations for enhancements based on the European experience to the IASB for its consideration. Introducing additional disclosures that would apply to a subset of IFRS preparers would not enhance the comparability and consistency of reporting. The right balance needs to be achieved between the costs and benefits of any disclosures in the financial statements. Given the diversity and complexity of shareholders' information needs, we believe consideration is required as to what is best disclosed in the financial statements.

It is noted that the Annex includes a reference to the views of the CFA Institute, which promote fair value measurement to all financial instruments. It should be noted that this matter is outside the CESR statement, which precisely describes the difficulties in determining fair value. In addition, these views are based on a small portion of the institutes overall member and are not shared by the analyst we meet in Europe. If such a quote of the CFO Institute were to be kept in the Annex, it would be necessary to include opposite views from other organizations, such as the International Banking Federation or the European Banking Federation or the Institute of International Finance or other financial statement user organizations, such as the Corporate Reporting User's Forum.

Following you will find our detailed responses to your questions in the section below. If you have any questions regarding our comments, we would be pleased to discuss them further with you.

Sincerely,

Gérard Gil
Group Chief Accounting Officer

BNP PARIBAS

Question: 1. Do you agree with CESR's views above regarding the distinction between active and non active markets for fair value measurement?

The views in the Consultation Paper (CP) regarding the distinction between active and non-active markets are consistent with the approach to the fair value measurement in IAS 39. The CP mirrors the measurement guidance already available under IFRS and therefore provides very little added value. Determining the fair value of illiquid instruments will always require the application of careful judgment. In addition, the application of judgment under IAS 39 is currently being discussed at the IASB's Expert Advisory Panel (EAP) on the valuation of financial instruments in inactive markets and therefore views should be given as input to the IASB through their process of its current review.

Question: 2. Do you agree with CESR's views above regarding inputs to valuation techniques for financial instruments in illiquid markets?

Again, this topic is being discussed by the IASB EAP and we believe that the work of the panel will help address any outstanding concerns CESR may have in this area and therefore encourage CESR to work with the IASB on these issues. It is understood among practitioners that the list of inputs in AG82 is not meant to be exhaustive, and that valuation experts frequently consider both the liquidity and correlation risk characteristics of the instruments they are valuing.

Question: 3. Do you agree with CESR's views above regarding disclosures of financial instruments in illiquid markets?

The focus of any information provided to the markets should be on the quality of that information rather than the quantity. Any additional disclosure requirements concerning financial instruments in illiquid markets should be based on characteristics of relevance and whether or not the information would be widely understood. Enhancement of disclosures should not be mandated because various companies have different business strategies and not all of the examples of disclosure will be relevant to every company. There needs to be an identification and elimination of disclosures requirements that are resulting in information that is not proving useful and is therefore just unnecessarily complicating the process and quality of financial reporting.

The IASB is currently working on a number of projects relevant to the reporting of financial instruments, including a review of IFRS 7 as a result of the current market condition. Therefore CESR should work with the IASB on these related projects, rather than seek to impose additional disclosures that would only be relevant for a sub set of IFRS filers.

Question: 4. Do you agree that the benefits of the presentation of disclosures regarding financial instruments in illiquid markets in the example in Box 2 outweigh the costs of preparing this information?

We do not agree that the benefits of the presentation of disclosure regarding financial instruments in illiquid market in the example in Box 2 outweigh the cost of preparing this information. Various companies have adopted different business strategies and therefore not all of the disclosure examples are relevant to every company. Disclosure in such a format would be costly to produce and might not be relevant or provide decision useful information for the users of the financial statements. It is for the market to determine what information is required and for the entities to decide how to deliver this information. It would be more useful if CESR were to work with the IASB on its review of the first years' IFRS 7 disclosures and make any recommendations for enhancements base on the European experience to the IASB for its consideration. Introducing additional disclosures that would apply to a subset of IFRS preparers would not enhance the comparability and consistency of reporting.