

AIB Group

PO Box 452
Bankcentre
Ballsbridge
Dublin 4

Telephone
(01) 660 0311
Facsimile
(01) 660 9137



Mr. Carlo Comporti,
Secretary General,
Committee of European Securities Regulators,
11-13 Avenue de Friedland
75008, Paris,
FRANCE

12 September, 2008

secretariat@cesr.eu

Re: Consultation paper on fair value measurement and related disclosures of financial instruments in illiquid markets

Dear Mr Comporti,

This is the response of Allied Irish Banks, p.l.c. (AIB Group) to the consultation on the above draft statement. AIB Group is Ireland's largest banking group based on total assets at December 31, 2007.

From the outset I would state that the challenges presented by the financial crisis have increased the complexity involved in valuing various financial instruments and accordingly, there is no straight forward solution available. Therefore, as stated in your paper, it is vital that controls around the valuation process are adequately documented and the policies around the valuation process disclosed.

While we have set out our responses to the questions raised below, we would make the following specific comments:

- Information regarding actual transactions including volumes and prices is often not available, even in active markets. This point is relevant in particular to paragraphs 23, 29 and 32 where the impression is given that transaction information is available with relative ease; and
- The argument in paragraph 28 that a forced sale price may constitute fair value 'unless there is sufficient evidence that the issuer would be able to get a better price should it decide to sell the instrument' does not consider that in some cases it is only those who are forced sellers that are in the market to sell. Other market participants who are not forced sellers will likely delay selling in such a case (leading to market inactivity). IAS 39 AG69 says that 'underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate or to undertake a transaction on adverse terms'. AG69 clearly states that 'fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale'.

Allied Irish Banks, p.l.c.
Registered Office
Bankcentre
Ballsbridge
Dublin 4
Registered in Ireland
Number 24173

In relation to specific questions raised by CESR

Question 1

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

While the issues highlighted in the paper are all important factors in determining whether or not a market should be considered active, as stated above, there is a danger in assuming that information regarding transaction volumes and prices is readily available. This is not necessarily so even before the current market dislocation.

Question 2

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

Whilst we are in broad agreement, we would highlight the difficulties involved in a 'continuous monitoring process' (CESR paragraph 36). The wording in IAS 39 AG76 is preferable i.e. 'periodically'.

We find it helpful that the dangers of using indices has been highlighted (paragraphs 38 and 39)

Question 3

Do you agree with CESR's views regarding disclosures of financial instruments in illiquid markets?

We acknowledge the need to increase disclosures to enable users to understand the impact of particular transactions. However, disclosure requirements need to be balanced against the possibility of information overload if issuers are required to comply with very detailed disclosures on every facet of the accounts and users are faced with trying to sift through this information.

Paragraph 59 seems to refer to all assets and liabilities held at fair value through profit or loss, however, IFRS 7 paragraphs 9(c), 10(a) and 11(a) refer only to loans and receivables (and any related credit derivatives or similar instruments) and financial liabilities **designated** as at fair value through profit or loss. Clarification is required that CESR is not proposing such disclosures in respect of all financial instruments held at fair value through profit or loss. In our view, management is best placed to determine which disclosures are most appropriate to their business and it is not appropriate for standard setters to impose a rigid disclosure framework, which could lead to the provision of information which may be consistent across preparers of financial statements but less meaningful to users of individual financial statements.

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 believe that disclosure formats should be prescribed. While the incremental cost of preparing the information may not be significant, we do not believe that the benefits will outweigh the costs.

* * *

If you require clarification on any issue raised, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'B. McHugh', with a stylized flourish at the end.

Brendan McHugh,
Group Financial Controller