

The Committee of European Securities Regulators
11-13 Avenue de Friedland
75008 Paris
France

12 September 2008

Dear Sirs

CESR Consultation Paper 08-437: Draft CESR Statement on fair value measurement and related disclosures of financial instruments in illiquid markets

We are responding to the invitation to comment on the above referenced consultation paper on behalf of PricewaterhouseCoopers. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Following consultation with members of the PricewaterhouseCoopers network of firms in Europe, this response summarises the views of member firms who commented on the draft CESR Statement (the 'Statement'). We have addressed the specific questions raised in the consultation paper in the attached appendix. In this covering letter we address some of the more significant issues raised by this consultation.

Scope of the Statement

We agree that recent conditions in financial markets have increased the complexity and uncertainty of fair value measurement. We also agree that it is important that the financial statements include adequate disclosure about exposures to risk, accounting policies and valuation methodologies. Hence, we support the CESR's aim of raising awareness of the issues. However, responsibility for developing accounting standards for adoption and use by listed companies within the European Union rests with the IASB and we are concerned that in some respects the draft Statement may be inconsistent with or go beyond the requirements of current IFRSs.

For example, both IAS 39, 'Financial instruments: Recognition and measurement', and the draft Statement acknowledge that determining whether a market is active is an important matter of judgement. There is no bright line distinguishing an active market from a non-active market. Instead, the level of market activity lies on a continuum, with greater judgement being required as a market becomes less active. However, the draft Statement suggests that active markets are quite distinct from non-active markets.

As regards disclosure, we have described in the appendix to this letter a number of examples from the draft Statement that we believe are more specific and detailed than the equivalent requirements in IFRS. We acknowledge that the draft Statement mostly describes these disclosures as examples of what an issuer *might* do, and agree that disclosure of this type may be useful and relevant in some cases. In that respect, the draft Statement is a helpful contribution to the evolution of good

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disclosure. However, the CESR's views carry authority in Europe and care will be needed to avoid an impression that all issuers should make a particular disclosure, regardless of whether it is relevant to them.

In its principles-based, 'through the eyes of management' approach to IFRS 7, 'Financial instruments: Disclosures', the IASB has placed the onus on issuers to be proactive and robust in their approach to financial instrument disclosures. It has provided them with the flexibility to disclose information that is most relevant to market participants, especially given current market conditions. In a recent PricewaterhouseCoopers survey of banks' 2007 annual reports, we expressed the view that banks are likely to improve their reporting processes and related controls as they become more comfortable with IFRS 7's requirements and build upon the lessons learned from the current market conditions. In other words, good disclosure evolves over time, building on best practice consensus, and is seldom the result of increased volumes of disclosure rules.

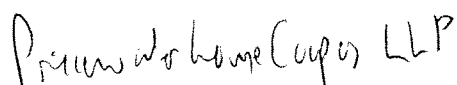
Working with the IASB's Expert Advisory Panel and others

We note that the CESR intends to issue a final Statement in October. In the meantime, the IASB's Expert Advisory Panel, formed following the recommendation of the Financial Stability Forum, is developing its own educational guidance covering similar topics for publication within a similar timeframe. It would not be helpful to issuers if two important bodies were to issue guidance around the same time but delivering different messages. Accordingly, we believe that the CESR should work with the Panel and that the Statement should be presented as a contribution to the Panel's deliberations. In finalising its Statement, the CESR should ensure that its views are consistent with any educational guidance that the Panel may publish.

We also note that the IASB itself is considering revisions to IFRS 7. The Statement will provide a useful contribution to the IASB's efforts and we encourage the CESR to continue to provide input to the IASB as its project progresses.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Richard Keys (+44 20 7212 4555), Pauline Wallace (+44 20 7804 1293) or Peter Hogarth (+44 20 7213 1654).

Yours faithfully



PricewaterhouseCoopers LLP

Appendix - Detailed responses to questions raised on the draft Statement

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

We agree that the determination of whether a market is active is a matter of judgement. However, we do not agree with the inference in paragraph 23 that there is a bright line dividing active and non-active markets. Specifically, we do not agree with the final sentence of that paragraph, which states that if observed transactions are no longer regularly occurring, even if the bid-ask prices might be available, the market should no longer be considered as active,

In our view, the level of market activity lies on a continuum – as a market becomes less active; issuers will need to exercise greater judgement in determining whether prices observed in that market represent reliable measures of fair value. At all times, the objective is to arrive at the price at which a transaction would occur at the balance sheet date in the most advantageous market to which the issuer has immediate access. Even if a market is wholly inactive, estimates of fair value should incorporate all factors that market participants would consider in setting a price.

This view is consistent with those expressed by the Global Public Policy Committee of the six largest international accounting networks in a paper issued last December. That paper included the following in respect of the frequency of transactions in an active market:

“Regularly occurring market transactions’ does not mean that there needs to be a consistent number of market transactions from one period to another. Consequently, a significantly lower than normal volume of transactions does not necessarily provide sufficient evidence that there is not an active market and that the observed transactions are forced transactions or distressed sales. Similarly, a lower than normal volume of transactions does not automatically mean that the transactions that are occurring are motivated other than by normal business considerations. It would not be appropriate to disregard observable prices in an active market even if the market is relatively thinner or illiquid as compared to previous periods.”

We believe that the extract reproduced above is a better reflection of IAS 39's requirements and that the final sentence of paragraph 23 should be either modified along these lines or deleted.

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

Yes. The IASB's Expert Advisory Panel is developing its own educational guidance, which we understand will go into detail on the subject of inputs to valuation techniques. We encourage the CESR to contribute to the Panel's work and to ensure that the final Statement takes into account or refers to any educational guidance that the Panel may publish.

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

We agree that, given the complexity of many business situations, the different business rationales for holding financial instruments and the uncertainty around fair values, clear disclosures are necessary for users to understand these aspects and their implications for the fair value measurements included in the financial statements. The disclosure requirements for financial instruments are included within IFRS 7, 'Financial instruments: Disclosures', and IAS 1, 'Presentation of financial statements', which should be applied to the specific circumstances of the issuer.

We believe that good disclosure arises from careful consideration of an issuer's circumstances by reference to high level disclosure principles. We do not support detailed checklists, which are often

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completed by rote and do not result in clear and coherent disclosure. Whilst we acknowledge that disclosure of the type described in the draft Statement may be useful and relevant in some cases, it should not be described in a way that suggests it is a requirement of IFRS. For these reasons, we encourage the CESR to make a clearer statement that the examples show only one way of interpreting the disclosure requirements of IFRS and that they may not be relevant to all issuers. Issuers should consider the nature and extent of disclosure that is appropriate to their individual circumstances with the objective of telling a clear and coherent story about their performance and exposure to risk.

We also disagree with the assertion in paragraph 61 that all disclosures relating to financial instruments are part of the financial statements and, thereby, audited. The information required by IFRS and, in some cases, local law forms part of the financial statements even if this is contained elsewhere in the annual report but incorporated by cross-reference (as envisaged in paragraph B6 of IFRS 7). However, issuers are at liberty to give further information not required by accounting standards or law and this does not necessarily need to be incorporated within the financial statements. We acknowledge the difficulties that readers of financial statements may face when information on a single topic is to be found in several different places. However, there is a risk that a requirement for all disclosures of financial risk to be audited, even if they are not required by IFRS 7, will discourage experimentation and thus impair transparency. We would therefore suggest that entities are encouraged to provide greater disclosure even where this is not audited.

Finally, as a point of detail, paragraph 59 describes disclosures in respect of assets and liabilities held at fair value through profit and loss. The final sentence of that paragraph states that 'this information will help users to better understand that impact on financial statements of an issuer's credit deterioration'. Clearly this applies only to the liabilities disclosure as movements in asset prices do not provide information about the credit quality of the holder of the asset.

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?

Whilst we recognise that paragraph 60 of the draft Statement refers to Box 2 as 'an example' of how to present information about valuation techniques, we are concerned that some issuers may interpret the references to what they 'should' do as meaning that disclosure of this type is mandated. Whilst it may be useful and relevant for some issuers, disclosure of this nature may be excessive and potentially irrelevant for many others. Issuers should determine what is the appropriate manner and extent of disclosure, taking into account the information management uses itself to manage the business. Accordingly, we do not agree that the benefits of the presentation in Box 2 will outweigh the costs of preparation in all circumstances. Furthermore, for the reasons set out in our response to question 3 above, we encourage the CESR to make it clear that the nature and extent of disclosure should be appropriate to an issuer's individual circumstances with the objective of telling a clear and coherent story about its performance and exposure to risk.