



**KPMG LLP**  
1-2 Dorset Rise  
London EC4Y 8EN  
United Kingdom

Tel +44 (0) 20 7694 8589  
Fax +44 (0) 20 7694 8096  
DX 38050 Blackfriars  
[mark.vaessen@kpmg.co.uk](mailto:mark.vaessen@kpmg.co.uk)

The Committee of European Securities  
Regulators  
11-13 avenue de Friedland  
75008 PARIS  
FRANCE

Our ref mv/gf/815

Contact Mark Vaessen  
+44 (20) 7694 8589

12 September 2008

Dear Sirs

**Consultation Paper, *Draft CESR Statement: Fair value measurement and related disclosures of financial instruments in illiquid markets.***

We appreciate the opportunity to comment on the Consultation Paper, *Draft CESR Statement: Fair value measurement and related disclosures of financial instruments in illiquid markets*. The views expressed in this letter are those of KPMG Europe LLP whose network comprises the KPMG member firms of Germany and the United Kingdom, and as of 1 October 2008, the KPMG members firms of Spain and Switzerland.

The international network of KPMG firms is participating actively in the IASB's Expert Advisory Panel, which was set up in response to recommendations made by the Financial Stability Forum. As you will know, this Panel's stated objective is to assist the IASB in reviewing best practices in the area of valuation techniques and formulating any necessary additional guidance on valuation methods for financial instruments and related disclosures when markets are no longer active.

We understand, and share, many of the concerns regulators have in the current economic climate to ensure that the markets receive transparent information and therefore agree with CESR that an appropriate application of the measurement and disclosure requirements is important. We regard the Consultation Paper as a useful contribution to the discussion of the issues that have arisen as a result of the current market conditions. However, consistent with the views we expressed in the CESR workshop on fair value accounting on 20 May 2008, we strongly believe that CESR should not issue its own application guidance on these matters, but should instead provide input to the process that the IASB has set up through its Expert Advisory Panel. We believe this for two reasons.

Firstly, as the CESR press release itself acknowledges, the authority for setting standards, interpreting standards and issuing interpretation guidance on these standards lies with the IASB

12 September 2008

and IFRIC. We feel that the guidance provided in the draft CESR statement on IAS 1, IAS 39 and IFRS 7 edges on the border of being interpretative (e.g. paragraph 36 states that calibration processes should be “continuous”, paragraph 51 states that disclosures should consider what would “restore confidence”, paragraphs 54 to 57 state that certain disclosures are “important”) and therefore, if it were issued as drafted, could be seen as EU-specific application guidance. As a matter of principle, we believe that the risk of regional “dialects” of IFRS arising due to national or regional bodies issuing their own interpretative guidance should be kept to a minimum, as this would be contrary to the objective of having global accounting standards.

Secondly, we understand that the IASB’s Expert Advisory Panel is addressing most of the points raised in the draft consultation paper and that the Panel’s activities are expected to result in publicly available output that can be of help to market participants for the upcoming financial statements reporting periods. When the results of the Expert Panel’s discussions become publicly available, CESR will be able to review that output and assess whether it already deals with the issues the CESR consultation paper is seeking to address. If CESR concludes that this output is helpful, as we would expect, it may even want to consider whether there is merit in recommending market participants to have regard to the Panel’s discussions in the preparation of financial statements for the 2008 reporting season. Market regulators in other jurisdictions outside Europe may want to consider a similar approach.

With respect to the discussion on measurement issues in the draft consultation paper, we note that CESR believes that *“it is a necessity that the issuer documents the criteria, the assumptions and the inputs to the valuation techniques in order to ensure consistency and also in order to be able to explain the results of changes to the valuation techniques when disclosing the information required to investors and other users of financial statements [paragraph 31].”* Although we have no disagreement with the sentiment behind this observation, we believe that accounting standards and interpretations thereof are not the appropriate place to prescribe documentation requirements. Obviously, where subjective or complex valuation questions are significant for an issuer, it is unlikely that the objectives of IAS 39 could be achieved without appropriate documentation of methodologies and inputs. Similarly, in these cases, internal and external auditors may require extensive documentation for evidential reasons. Moreover, an issuer might require detailed documentation to satisfy its corporate governance framework or to meet legal or other regulatory requirements as to internal controls or maintenance of proper accounting records. However, corporate governance, internal control, audit or legal requirements should not be addressed in accounting standards, which we believe should confine themselves to the principles for external financial reporting, including an appropriate level of application guidance with respect to the substantive valuation techniques that are an inherent part of those principles, and disclosure as to the application of those techniques. In a similar vein, if CESR were to go ahead with publishing a statement with the guidance as drafted (which we do not recommend), we believe that it should not deal with any documentation requirements, as this would set an undesirable precedent.

As we believe that the CESR consultation paper should serve as an input to the IASB’s and the Expert Advisory Panel’s discussions, rather than be issued on a stand-alone basis by CESR, we

*12 September 2008*

have restricted our comments in this letter to general observations only and, consequently, have not sought to answer any of the specific questions raised.

Should you wish to further discuss any aspect of this letter, please contact Mark Vaessen at +44 207 694 8589.

Yours sincerely,



KPMG LLP