IMMFA

Institutional Money Market Funds Association

12 September 2008

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

Dear Sirs,

Re: Technical advice on the fair value measurement and related disclosures of financial instruments in illiquid markets

The Institutional Money Market Funds Association (IMMFA) welcomes the consultation from CESR on the fair value measurement and related disclosures of financial instruments in illiquid markets. We are grateful for the opportunity to comment on the proposed recommendations made by CESR.

IMMFA is the trade association representing the providers of triple-A rated money market funds and covers nearly all of the major providers of this type of fund outside of the USA. Triple-A rated money market funds are bought primarily by institutions to manage their liquidity positions and not for 'total return' investment purposes. They are used as an alternative to bank deposits by many investors as they offer a practical means of consolidating and outsourcing short-term investment of cash. Total assets in IMMFA members' funds as at July 2008 were in excess of €420 billion. You can obtain further information on triple-A rated money market funds from our website, www.immfa.org.

The paper has four questions that it requires us to address:

1. Do we agree with the distinction made by CESR regarding active and non-active markets for fair value measurement?
2. Do we agree with CESR's views regarding inputs to valuation techniques for financial instruments in illiquid markets?
3. Do we agree with CESR's views regarding disclosures of financial instruments in illiquid markets?
4. Do we agree that the benefits of the presentation of disclosures regarding financial instruments in illiquid markets outweigh the costs of preparing this information?

We support the attempts by CESR to improve the disclosure which is provided in the financial statements. The events which have occurred within global financial markets since last summer have demonstrated the importance of transparency and the need for attempts to be made to improve that which is currently being provided. To that end, we are in agreement with the attempts of CESR to improve the current practices through the provision of guidance on those areas where improvements can be made. The increased complexity of financial instruments necessitates that investors are adequately appraised of the value and risk inherent within the balance sheet of any financial institution.

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In general, we agree with CESR's views regarding the distinction between active and non-active markets, which are consistent with current practices. However, we do not agree with CESR's view that an observed transaction price remains valid in a situation of generalised distressed or forced sale. The text of IAS 39.AG69 states 'Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.' The position which CESR has taken would appear to be counter to the IAS guidance.

The onus should be on the buyer/seller of an instrument to demonstrate that the transaction or sale was forced or distressed. Whilst the consultation paper identifies some factors which should be considered when determining whether a sale is forced, it should make explicitly clear that once such determination is made and demonstrable, any market price may be disregarded when assessing the whether the sale is forced or distressed.

In relation to question two, we agree with the views of CESR regarding the inputs to valuation techniques for financial instruments in illiquid markets. The proposal that liquidity and correlation risk are considered is eminently sensible, and we fully support these proposals.

We also support the proposals of those disclosures which should be considered regarding financial instruments in illiquid markets.

However, it is imperative that CESR recognise that these can only be a list of factors which are considered when buyers/sellers determine which information is disclosed in the financial statements. The international financial reporting standards are principles-based, and CESR have accepted that consistent application means consistent with the principles and treatments permitted by the standards. Consequently, whilst the information which CESR have suggested is disclosed in relation to financial instruments in illiquid markets is reasonable, CESR must accept that this cannot necessitate that all disclosure will be provided by every buyer/seller in every instance. The consultation paper identifies that 'there can be no one particular way of dealing with numerous situations which may seem similar but in substance are different.' It is imperative that this is factored into the supervision of financial institutions to ensure that a 'one-size-fits-all' approach is not implemented.

Given the principles-based nature of the IFRS, we do not agree with CESR's view in question four. The proposal for a prescribed format of disclosure and the content therein is inconsistent with a principles-based approach, and beyond the remit of CESR. Within the consultation paper, there is acceptance that the role of CESR is to provide input on the application of existing requirements; however, the attempt in Box 2 to standardise the content and format of disclosure is inconsistent with this role. For this reason, we are strongly opposed to the proposal contained in Box 2.

If you require any further information, please do not hesitate to contact me.

Yours faithfully

Salim Eceolaza

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IMMFA Secretariat