September 28, 2009

International Accounting Standards Board
1st Floor
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Fair Value Measurement

Dear Board Members:

We appreciate the opportunity to comment on the exposure draft (ED) entitled "Fair Value Measurement. Further, we fully support the Board's attempt to provide a single source of guidance for all fair value measurements and to improve the consistency in fair value application as it applies to existing IFRSs.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR comprises more than 20 senior financial executives representing a broad cross section of the FEI Canada membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

This letter includes general commentary, as well as, specific responses to certain questions provided for in the draft IFRS.

In general, we concur with the effort to provide a single source of guidance for how to measure fair value. Additionally, we concur with the described levels of input and the valuation techniques provided. However, we ask the Board to consider providing additional guidance or examples of when it may be appropriate to exercise judgment about when fair value measurements should be applied. We acknowledge that this ED (and the resulting proposed IFRS) does not require additional fair value measurements and the purpose of this guidance is to establish a single source of guidance for all fair value measurements. However, we believe that in certain circumstances, the application of fair value may not provide the best information to financial statement users. In fact, it may result in misleading information. There may be circumstances in which the information and assumptions used to measure fair value for a given asset or liability is so uncertain that the derived fair value will not be meaningful. Consideration should be given to alternative measurements in those situations where the financial reporting benefits do not justify the considerable effort required to measure fair value.

<u>Definition of Fair Value and Inactive Markets (Questions 1 and 10)</u>

200 – 20 Adelaide Street East, Toronto, ON M5C 2T6 _416.366.3007 _416.366.3008 _feicanada@feicanada.org
www.feicanada.org

The ED's definition of fair value is appropriate; however, it is incomplete. Furthermore the ED does not appear to address the determination of fair value in illiquid and inactive markets, such as those existing during the last half of 2008 and early 2009. The guidance in Appendix B is too vague to be useful. Furthermore, the ED does appear to address timing considerations. For example, the notion of other than temporary decline does not seem to be conveyed in the ED. Should temporary declines in fair value due to temporarily inactive or illiquid markets be recognized? Given the extensive use of judgment, extreme uncertainties in the markets, and inability to reasonably forecast future events, we believe fair value measurement is inappropriate in inactive or illiquid markets.

In addition, we believe that this new definition would be difficult to apply in the context of non-financial items especially since "active" markets do not exist for such items. Therefore, it might be more appropriate to value non-financial items on an "entity-specific" basis which would, arguably, be more accurate and representationally faithful than trying to determine "fair value" which would be, at best, an imprecise approximation.

Application to assets: highest and best use and valuation premise (Questions 5 and 6)

Valuation theory supports the notion of highest and best use in determining fair value. However, in the context of financial reporting, it seems misleading to report an asset at fair value (using highest and best use) when that use is not an entity's intended use of the asset. An example was provided in paragraphs 20 and 21 in which a factory on land best used for residential property could be valued significantly higher. As proposed, the factory should be valued considering its current use and the incremental fair value would be applicable to the land. This result assumes that the current use of the factory and the incremental value attributed to the land are not mutually exclusive, when in fact, they are mutually exclusive. Further, there would be incremental costs to the entity in order to "access" the land's incremental fair value without sacrificing current operations. Debt covenants and other provisions using asset and tangible net worth ratios would be overstated. For these reasons we do not agree with paragraphs 20 and 21 and would request that these be deleted from the final standard. In such situations we believe it would be appropriate to value the asset on an "entity-specific" basis taking into account the entity's intended use of the asset and such information would be , arguably, more useful to the users of the financial statements than recording an incremental value that is – as indicated earlier-misleading.
.
Paragraphs 5 and 6 of the draft IFRS provide that the measurement shall consider the characteristics of the asset or liability (e.g., the condition and location of the asset and restrictions, if any, on its sale or use). An asset or liability may be either an individual asset or liability or a group of assets or liabilities depending on the unit of account prescribed by the relevant IFRS. Paragraph 23 states the valuation premise, whether in-use or in-exchange, assumes the asset is sold individually (i.e., not as part of a group of assets or a business). The Board may wish to consider clarifying any adjustments and/or reconciliations it deems necessary when a relevant IFRS prescribes a unit of account indicating a group of assets or liabilities.

Application to liabilities: general principles and non-performance risk and restrictions (Questions 7 and 8)

In paragraph BC74 of the Basis for Conclusions, the Board acknowledges that the ED only defines fair value; it does not address when to use fair value. In many instances, where non-

performance risk of a financial liability is relatively low, the diminished fair value is small and can be understood. However, in instances where non-performance risk is high leading to a large diminution of fair value, it seems counterintuitive and misleading to record a gain, until the obligation has been defeased. The obligation either will be satisfied in full; resolved through a negotiated settlement between the parties; or defeased through bankruptcy. Interestingly, guarantees of one's own performance are excluded from recognition; and yet, this ED would result in gain recognition when an entity's own credit deteriorates. In this context we would also like to note that in our (August 2009) response to the IASB's Discussion paper on "Credit Risk in Liability Measurement" we have noted that "including own credit risk for any liabilities favors weak companies as they will show lower liabilities than strong companies and including own credit risk for a liability is inconsistent with the going concern assumption ……..." ; additionally in this response we have further noted that "current measurements following initial recognition should not include changes in credit risk for most liabilities. Assuming loans are to be held to maturity, recording a change in the recorded value would be inconsistent with the guidance provided in IAS 39. Recording a gain to income from a decline in creditworthiness would not provide relevant information and would and in fact provide misleading information. Liabilities … that could be traded (such as derivatives) are the exception and should always incorporate the price of credit risk …"

We acknowledge that (as a noted in paragraph BC73) "those who might hold the entity's obligations would consider the effect of the entity's credit risk and other risk factors when pricing those assets". However , we believe that there is not necessarily "symmetry" in the value accorded to the same item that is a liability in one entity and an asset in another and it is possible for the value recorded by the lender (i.e. the asset) to be "validly" lower than the value recorded by the borrower/payer (i.e. the liability) . Therefore we believe that it is not appropriate to "factor in" changes in one's own non–performance risk and as a result record gains.

We appreciate the opportunity to comment on the exposure draft. If you would like to further discuss any of our comments, please do not hesitate to contact me at (xxx) xxx-xxxx or (email).

Yours very truly,

Victor Wells
Chair
Committee on Corporate Reporting
FEI Canada

Cc Peter Martin, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario
M5V 3H2