



27 August 2010

Our ref: ICAEW Rep 83/10

Ms Françoise Flores
Chair
European Financial Reporting Advisory Group
13-14 Avenue des Arts
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By email: commentletters@efrag.org

Dear Françoise

MEASUREMENT UNCERTAINTY ANALYSIS DISCLOSURE FOR FAIR VALUE MEASUREMENTS

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter to the IASB on its ED, *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*, published in June 2010.

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We are still developing our own response to the ED and the comments that follow will not necessarily, therefore, be quite the same as those we eventually submit to the IASB.

1. On Question 1, we note that EFRAG's draft states that 'the correlation between inputs itself may be a level 3 input'. We agree with this observation, and are currently considering whether to raise this question in our submission to the IASB. On the one hand, certain passages in the exposure draft can be read in this sense (eg, BC20). On the other hand, it could be argued that, if a correlation between inputs is itself an input, the effect of changing assumptions about that correlation would be that one or more of the inputs would be changed. As the changes in the inputs would be disclosed, it might be superfluous to disclose the changes in the correlation as well. If EFRAG wishes to raise this point, it may therefore be more appropriate to do so as a request to the IASB for clarification.

2. Another point of uncertainty in answering Question 1 is that the underlying requirement would only apply in circumstances where changes in unobservable inputs would result in a significantly higher or lower fair value measurement. It is not clear what 'significantly' means in this context or how it would differ from a materiality test. It would also be helpful for EFRAG to raise this as a point that needs clarification.

3. Further, it is not clear whether correlations should be taken into account at the portfolio level or at the product level. It seems possible to us that correlations may exist (or may appear to exist) at the portfolio level that do not appear to exist at the product level. It might also be helpful for EFRAG to raise this as a point that could be clarified.

4. We are not sure that entities will be aware of all correlations between Level 3 inputs. The ED implies (BC21) that they will have to determine where such correlations exist, but we doubt whether such a requirement would be cost-effective. It would be useful for EFRAG to raise this point.

5. On Question 2, EFRAG's draft answer focuses on whether it is useful to take correlations into account rather than on whether the proposed requirement to do so would make a difference. Although we are still considering this point, we suspect – and would hope – that many entities already attempt to take correlations into account where they are aware of them. We would, therefore, often expect a measurement uncertainty analysis to provide meaningful information even in the absence of the proposed explicit requirement. But we believe that an explicit requirement to consider correlations will provide clarity.

6. We also think that it would be useful for the IASB to give examples of correlations between Level 3 inputs, as the proposed example in the ED appears to be of a correlation between Level 2 inputs. It would be helpful for EFRAG to suggest this too.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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