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DISCUSSION PAPER Fair Value Measurements
Part 1: Invitation to Comment and relevant IFRS guidance
Part 2: SFAS 157 Fair Value Measurements

Dear Sir

ISDA appreciates the opportunity to comment on Parts 1 and 2 of the IASB's Discussion Paper on Fair Value Measurements (FVM). We would also like to take this opportunity to express an interest in participating in the round-tables to be organised on this Discussion Paper and referred to in Paragraph 3 of Part 1 of the Invitation to Comment.

ISDA has over 750 member firms from 52 countries on six continents. These members include most of the world's major institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. As such, we believe that ISDA brings a unique and broad perspective to the IASB's work on accounting for financial instruments. Please note that we have restricted our comments to the impact of the proposals on the accounting for financial instruments, which is of most relevance to our members.

In September 2006, we wrote to the IASB to express our concerns about the Board's decision not to proceed directly to an Exposure Draft (ED) based on the FASB's Standard on FVM (SFAS 157). In our view, given the global nature of financial markets, it is critical that there is a single definition and framework for the determination of fair value. In the absence of this, ISDA is

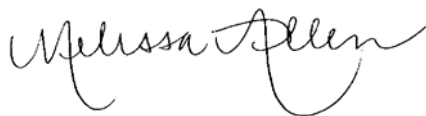
deeply concerned with the possibility that the same financial instrument traded in the same principal market by the same institution could have a different reported fair value under IFRS and US GAAP. In our view, this is conceptually flawed, may cause confusion among investors and ultimately diminish the concept of fair value within financial reporting.

Key messages:

- ISDA is supportive of the guidance provided in the IASB’s Discussion Paper on Fair Value Measurement. In our view, SFAS157 is a principles-based accounting standard and with only limited amendment, such as the treatment of block discounts, provides an appropriate accounting framework for the measurement of financial instruments at fair value.
- ISDA strongly supports the definition of fair value provided in the Discussion Paper as it is consistent with the way the fair value of a financial instrument is determined in practice. We therefore encourage the IASB to adopt and apply the principle of an “exit price” consistently for financial instruments recorded at fair value across all levels of the hierarchy. We also support these proposals as they allow for the valuation of a financial instrument using a price within the bid ask spread.
- IFRS uses the term fair value in various standards where an “exit price” may not be the most appropriate measurement basis. In particular, we do not consider it would be appropriate to measure at exit price on initial recognition those financial instruments that are subsequently recorded at amortised cost. We therefore stress the importance of the standard-by-standard review of extant IFRS, prior to the issue of an ED, in order to assess whether the intended measurement objective is consistent with the proposed definition of fair value in all circumstances.
- Whilst we understand the need to address any key issues raised by constituents on the Discussion Paper, we would encourage the IASB to move to an ED as quickly as possible, in order to achieve international consistency in fair value measurement. Some of our members are in the process of adopting SFAS 157, and it is clear that the US standard is creating differences between US GAAP and IFRS with respect to how entities are required to measure and disclose fair values.

The Appendix to this letter sets out our detailed responses to the questions in Part 1 of the Discussion Paper “the invitation to comment”. We would be pleased to discuss our comments further with the Board or staff and to arrange this contact either Melissa Allen at Credit Suisse (0207 883 3598) or Ed Duncan at ISDA (0203 088 3574).

Yours sincerely

A handwritten signature in cursive script that reads "Melissa Allen".

Melissa Allen
Chair of ISDA's European Accounting Committee
Managing Director, Credit Suisse

A handwritten signature in cursive script that reads "Ed Duncan".

Ed Duncan
Director of European Policy at ISDA

Appendix

We set out below our comments relating to the specific questions outlined in the invitation to comment.

Question 1

In your view, would a single source of guidance for all fair value measurements in IFRS both reduce complexity and improve consistency in measuring fair value? Why or why not?

ISDA agrees that a single definition and source of guidance for fair value would reduce complexity and improve consistency in the use of fair value measurements. Currently within IFRS there are many different definitions of fair value dispersed throughout the standards with limited supporting application guidance which may lead to inconsistencies in the use of fair value in financial reporting.

Furthermore, given the global nature of financial markets, we have previously encouraged both the IASB and the FASB to converge their projects on fair value in order to achieve international consistency in the measurement of financial instruments and the determination of fair value.

However, as set out below in response to Question 3, the term “fair value” is used in certain situations in IFRS where an exit price measurement objective is not appropriate and so those references to “fair value” will need to be reviewed.

Question 2

Is there fair value measurement guidance in IFRS that you believe is preferable to the provisions of SFAS 157? If so, please explain.

ISDA fully supported the work of the FASB to develop a single definition of fair value and the methods used to determine fair values. Generally, we consider the final guidance issued by the FASB provides an appropriate framework for the fair value measurement of financial instruments. It is preferable to the provisions in IAS 39 because:

- i. it requires the consistent use of an “exit price” across all levels of the hierarchy;
- ii. it permits financial instruments to be recorded at the price within the bid-ask spread that is considered to be the most representative of fair value in the circumstances; and
- iii. it explicitly introduces the concept of an in-use valuation that better describes the method used to value certain portfolios of financial instruments.

In our view, SFAS 157 is a principles-based accounting standard that, given the pace of change in the financial markets, will provide an appropriate accounting framework for recording current and ever more sophisticated financial products at fair value.

Furthermore, given the global nature of financial markets, it is critical that there is consistency in fair value measurement across the different markets. This would enhance the comparability of global financial reporting and ensure all organisations are operating on a level playing field. The

possibility that the same financial instrument held by the same entity and traded in the same principal market could be reported at different fair values under US GAAP and IFRS is of particular concern to ISDA. This would be conceptually flawed, may cause confusion among investors and other users and erode the credibility of the reported information.

Therefore, we strongly encourage the IASB to proceed by issuing an Exposure Draft (“ED”) based on the final FASB Fair Value Measurement Standard with limited amendment. If necessary, further improvements should then be considered jointly with the FASB with a view to developing a globally adopted standard in due course.

Question 3

Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?

ISDA strongly supports the definition of fair value provided in SFAS 157 as this is consistent with the way fair value is determined in practice for financial instruments and will, in general, be consistent with the way dealers price and risk manage their positions.

For trading book and other financial assets held at fair value, it is important that financial statement reporting is aligned with the overall risk management practices of the organisation so as to ensure that the information is economically useful and provides a reader with an understanding of the risks taken by the entity. The use of exit prices will ensure that the fair value used in external financial reporting is the same as that used for management reporting.

Notwithstanding the above, we would like to emphasise that although we fully support moving to a single definition of fair value and the need to simplify existing guidance, the concept of fair value is used in many standards where it may not be appropriate to measure the instrument at an “exit price” fair value. The example of this issue of greatest concern to our members is in paragraph 43 of IAS 39, which requires that all financial instruments are measured at fair value on initial recognition, even if they are not subsequently held at fair value or with a view to resale. In these cases amortised cost accounting is often the most appropriate measurement basis. ISDA believes that initial recognition of, for example, a loan that is to held to maturity at an exit price and recognition of upfront gains or losses would, in such circumstances, be inappropriate. The issue would also arise for a financial liability subsequently measured at amortised cost.

We therefore stress once again the importance of the IASB’s standard-by-standard review (as referred to in paragraph 17 of the Invitation to Comment) being completed and the results included as part of the ED on fair value measurement, so as to provide constituents with an opportunity to comment on the proposals in the context of proposed revisions to other standards. (See also our response to Question 5.)

Question 4

Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree with the

view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.

In many cases entry and exit prices may be the same but the presumption is rebuttable. As stated above, we believe that an exit price is the most appropriate measure of fair value for a financial instrument subsequently recorded on a fair value basis. However, we also note above that an exit price would not be the most appropriate measure for the initial recognition of an asset or liability held at, for example, amortised cost.

Entry and exit prices will differ due to the bid-ask spread and transactions occurring in different markets. It is important to emphasise that the bid-ask spread set by a dealer does not solely represent transaction costs but will take into account unearned credit spread, investing and funding costs, close out costs and costs of administration, as well as the dealer's margin. The size of the spread will depend on the liquidity of the financial instrument, the size of the transaction, the dealer's risk tolerance and whether the trade increases or decreases the risk profile of the dealer's portfolio.

There will also be a difference between entry and exit prices when financial instruments are managed as a portfolio.

Question 5

Would it be advisable to eliminate the term 'fair value' and replace it with terms, such as 'current exit price' or 'current entry price', that more closely reflect the measurement objective for each situation? Please provide a basis for your views.

In the interest of international consistency, we believe it is important to have a single definition of fair value and common terminology for financial instruments recorded at fair value. This will help to ensure consistency in the interpretation and subsequent application of fair value measurements in financial reporting.

However, as noted above, the concept of fair value is used widely within IFRS and we are concerned that in some circumstances it may not be appropriate to apply an exit price to measure certain financial instruments. Therefore, it will be critical that the IASB completes the proposed standard-by-standard review of extant IFRS to assess whether the intended measurement objective is consistent with the proposed definition of fair value. Where an exit price is not appropriate (such as in paragraph 43 of IAS 39) then the term "fair value" should be replaced by another term.

Question 6

Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRS as applied in practice? If so, which fair value measurements in IFRS differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as

applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.

In response to other questions in the Discussion Paper and as outlined below, we have highlighted where we think the exit price measurement objective in SFAS 157 differs from the fair value measurement guidance in IFRS. In particular:

- a) When determining the fair value of financial instruments with unobservable inputs, SFAS 157 allows the use of an exit price, whereas IAS 39 would consider the best evidence of fair value at initial recognition to be the transaction price (see our response to Question 11).
- b) When determining the exit price, SFAS 157 allows fair value measurement at a price within the bid-offer spread that is most representative of the price that would be achieved, whereas IAS 39 explicitly requires a bid-offer spread to be used where there is an active market (see our response to Questions 21 to 23).

In each of these situations, we consider SFAS 157 would result in a better estimation of fair value.

Question 7

Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?

ISDA supports the definition of market participants as outlined in SFAS 157 because it is consistent with how financial instruments are priced and valued in practice. It is also consistent with the approach adopted in IAS 39 (see Question 8).

Question 8

Do you agree that the market participant view in SFAS 157 is consistent with the concepts of 'knowledgeable, willing parties' and 'arm's length transaction' as defined in IFRS? If not, how do you believe they differ?

ISDA agrees that the market participant view, outlined in SFAS 157, is consistent with the concepts of knowledgeable, willing parties and an arm's length transaction currently contained in IFRS. In our view, the definition more precisely articulates the objective in IAS 39 of using a price derived from the most advantageous market to which the entity has access.

Question 9

Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?

ISDA supports the definition of fair value as an exit price and as noted below our members do not believe that there is a significant difference in practice between the terms “transfer” and “settlement” as used in accounting standards. We further note that there are currently different views in the market place as to whether an entity should adjust for the effect of a change in its own credit risk when determining the fair value of a liability. Whilst such an adjustment is consistent with the widely accepted view that the asset side of the balance sheet must be adjusted for counterparty credit risk in determining the fair value, this may or may not be realisable in practice.

Question 10

Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRS as applied in practice? If so, in practice which fair value measurements under IFRS differ from the transfer measurement objective in SFAS 157 and how do they differ?

Although there are differences in theory, ISDA does not believe there is a significant difference between SFAS 157 and IFRS as it is applied in practice to financial liabilities recorded at fair value in accordance with IAS 39.

Question 11

In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.

ISDA considers that the objective of fair value measurement should be to measure an instrument consistently at the exit price regardless of the level of the fair value hierarchy to which the instrument belongs.

In our view, the fair value of financial instruments determined using valuation models should not be considered inferior to those determined from quoted prices. Although judgment is involved in the valuation process, trading entities have a robust internal control process for ensuring valuations are reasonable and consistent.

To aid users of financial statements in their understanding of the basis of fair value estimates, IFRS 7 already requires enhanced disclosures for those valuations using models. These disclosures include the key methods and assumptions of the model in determining the fair value and the sensitivity of the fair value to changes in one or more of the models’ assumptions. In addition, the Discussion Paper incorporates extensive disclosures which, along with clearer guidance on how to apply fair value should allay concerns in respect of the reliability of fair values (see also our response to Question 24).

Question 12

Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views

We believe that both SFAS 157 and IAS 39 permit a portfolio-based approach (except for block discounts – see question 20), which is consistent with the way market participants price and manage risk.

SFAS 157 incorporates the concept of the “highest and best use of the asset”, so that the fair value of an asset can be based on its value “in-use”, together with other assets as a group. It is clear that this may be applied to financial instruments since paragraph 13(b) of SFAS 157 states that an “in-exchange” basis *may* be the most appropriate for a financial asset, rather than mandating its use.

Whilst there is no explicit guidance in IAS 39 on the appropriate unit of account for transactions where there is no active market, we believe IAS 39 encourages an entity to determine the fair value of a group of financial instruments in aggregate where these are managed on a portfolio basis. In particular, IAS 39 AG 76 requires an entity to incorporate “all factors that market participants would consider in setting a price” which is “consistent with economic methodologies for pricing financial instruments”. In addition, the fair value option allows an entity to fair value a group of financial instruments where they are managed on a portfolio basis. Also, paragraph AG 72 specifies that when “an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as the basis for establishing fair values for the offsetting risk positions and apply the bid or ask price to the net open position as appropriate”. Although written in the context of active markets, the principle is considered also to be applicable for instruments traded in less active markets.

In practice, dealers account for derivatives on a portfolio basis. The main effects of this are in determining the valuation adjustments that reflect components of credit as well as the bid-ask spread (see our response to Question 4). The following examples illustrate the use of a portfolio approach to the credit spread and to the costs of closing out an interest rate derivative position:

- i) If a dealer has entered into two transactions with the same counterparty, which have offsetting counterparty risk (e.g. a purchased and written option or two swaps with offsetting risk profiles) the credit adjustment on a portfolio basis would be less than for one financial instrument, such as a purchased option held on its own, as the credit risk for the entity is much reduced.
- ii) A dealer has a portfolio of interest rate swaps where the risks are managed on a portfolio basis, with some of the risks naturally offsetting each other. Assume the dealer has executed a one year, CU 2 million notional pay 5%, receive LIBOR interest rate swap with one counterparty and a two year, CU 2 million notional receive 5%, pay

LIBOR interest rate swap with another. The dealer does not have an open interest rate position in year one but does have an open CU 2 million notional interest rate position in year two. To offset the interest rate position in year two, the dealer may decide to enter into a further transaction to reduce the open risk. In this situation, the dealer will consider and agree the price of this new transaction in the context of the entire portfolio. Until this new trade is entered into the dealer would value the portfolio so as to include the “cost” of closing out the risk position for year two but would make no adjustment for the offsetting risk position in year one. Once this new trade is executed the dealer will have closed out its open risk position and the portfolio will be re-valued based on the exit price of the swaps in combination.

It is important to emphasise that most derivative transactions are not entered into principally for the purpose of selling or repurchasing in the near term, but are managed on a portfolio basis. The portfolio is dynamic and individual instruments will be bought or sold in order to manage the entity’s risks and to accommodate new business. In circumstances when a dealer disposes of a significant proportion of a portfolio it would normally dispose of the instruments as a portfolio, rather than as individual contracts with the marketplace. In addition, from time to time, two entities may seek to reduce the number of derivatives open between them (so as to reduce the number of cash flows and accounting complexity). In this situation, they will close out the trades and replace them based on the overall valuation of the derivatives portfolio.

SFAS 157 explicitly permits the in-use basis for assets and so does not expressly contemplate portfolio valuations for a collection of assets and liabilities, such as a portfolio of derivatives. We recommend that it be clarified that the in-use application applies to liabilities as well as assets.

Question 13

Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?

ISDA agrees that a fair value measurement should be based on the principal market, as set out in SFAS 157. Prioritising the principal market over the most advantageous market provides a more practical approach to fair value measurement as it does not require an entity to consider and assess prices across all possible markets to which it has access in order to determine the most advantageous price.

Notwithstanding the above, we again emphasise that where a group of financial instruments are managed on a portfolio basis then the fair value should be determined with reference to the principal market for the portfolio as a whole, rather than on an asset-by-asset basis (see our response to Q12).

Question 14

Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?

ISDA would agree that when determining the fair value of a financial asset or financial liability an entity should consider all attributes that are specific to the asset or liability that market participants would consider when determining the price of the instrument.

As noted above, ISDA believes it is critical that the guidance is clear that fair value is determined based on either a stand alone asset/liability or for a group of assets/liabilities where this is consistent with the way the assets or liabilities are managed by the business. This would ensure that where a financial instrument is held at fair value, the fair value used in external financial reporting is the same as that used for internal management information.

See also our responses to Questions 15, 16, 20 and 21.

Question 15

Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?

There are situations where transaction costs clearly need to be taken into account in determining the fair value of an asset, such as an adjustment for transport costs when the fair value price basis is for the asset held at some other geographical location. In this case, the transaction costs should be considered an intrinsic part of the value of the asset or liability and we are supportive of the notion in SFAS 157 that these would be considered an attribute of the financial instrument.

It is important to understand that depending on the market place in which you transact, there are different market conventions on the charging of transaction costs. In certain markets the transaction costs may form part of the bid-ask spread. In other markets the dealer may not quote a bid-ask spread (except, possibly, on larger transactions) but will instead charge a commission for execution of the trade. In such a case a commission performs the same substantive function as the bid-ask spread.

Overall, ISDA is comfortable that the provisions within SFAS 157 which enable an entity to value a financial instrument at an appropriate price within the bid-ask spread will help to address this point.

Question 16

Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?

Please see our response to Question 9 above.

Question 17

Is it clear that the ‘in-use valuation premise’ used to measure the fair value of an asset in SFAS 157 is different from ‘value in use’ in IAS 36? Why or why not?

We have limited our responses in this letter to accounting for financial instruments.

Question 18

Do you agree with the hierarchy in SFAS 157? If not, why?

ISDA supports the fair value hierarchy outlined in SFAS 157 and, in particular, the fact that the concept of an exit price is used to determine fair value across all levels of the hierarchy.

In our view, the SFAS 157 hierarchy provides clear information to a user on how a fair value has been determined and is an improvement over the active/non active market split in IAS 39, in that it focuses not on the market in which transactions occur but on the inputs to the valuation process.

Whilst we support the use of a fair value hierarchy for disclosure purposes, we continue to emphasise to both Boards that prices generated by valuation techniques should not always be considered inferior to quoted prices. In practice, the fair value of a financial instrument requires careful application of judgement to ascertain the assumptions and estimates to determine the most appropriate fair value.

We therefore view the hierarchy as primarily a way to increase consistency, comparability and transparency of fair value measurements and related disclosures.

Question 19

Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?

ISDA considers that the fair value hierarchy clearly defines the different levels and methods used to determine fair value measurement. The standard requires an instrument to be included in the fair value hierarchy based on the lowest level input that is significant to the fair value of the instrument in its entirety. The determination of the appropriate level of the hierarchy for each particular financial instrument requires preparers to use their judgement and it will be important that appropriate controls are in place within an organisation to ensure consistent treatment and measurement.

In our view, it is likely that, over time, consistency will evolve in practice in the allocation of financial instruments to the three levels of the hierarchy.

Question 20

Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.

We have previously made representations to both the IASB and FASB on the subject of disposing of large positions and continue to believe that block discounts should be allowed within all levels of the fair value hierarchy. This is on the basis that the liquidity of most markets will not allow large blocks of financial instruments to be liquidated at the price quoted for a single financial instrument. We note that in the SFAS 157 Basis for Conclusions the argument is advanced (see C78) that dealers can sell large blocks in smaller quantities at the quoted price, so that a blockage discount is not necessary. However, for blocks beyond a particular size (the size depending on the liquidity of the market for that particular instrument at that time) this argument does not hold true – whether the block is sold out as one large parcel or in small quantities over a period of time, the act of selling will affect the balance of supply and demand and will depress the price achieved.

In our view, it is neither prudent nor sensible to measure the block at the quoted market price. We continue to find it difficult to understand how not incorporating block discounts where appropriate enables the accounts to show a true and fair view of the value of the position to the entity at the balance sheet date, and we therefore recommend that the guidance be amended to allow such discounts.

For the same reason as outlined above, we do not believe that the provisions prohibiting blockage discounts should apply to other levels of the fair value hierarchy.

Question 21

Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRS, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.

As noted above, ISDA strongly supports the concept of an exit price basis for fair value measurement. It is important to emphasise that whilst a dealer may quote a bid-ask spread, they will often trade within the range depending on the counterparty and the current risk positions in their portfolio. As a result, we agree with the view expressed in the Discussion Paper that the fair value of an instrument should be determined using the price within the bid-ask spread that the entity is willing and able to trade.

Question 22

Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid-ask spread might be more representative of fair value? Why or why not?

SFAS 157 permits the use of mid-market pricing (and other such pricing conventions) when determining the fair value of financial instruments. We understand that these provisions were included in the Standard so as to enable certain types of investment companies to continue with their current practice of valuing instruments at mid market prices.

Although ISDA believes that a financial instrument measured at fair value should be recorded at its exit price as contemplated in SFAS 157, ISDA would not be opposed to a pricing convention in a final standard that provides a less sophisticated entity holding financial instruments with a practical way of determining fair value. This would still result in consistency in fair value reporting within different industry sectors.

Question 23

Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?

ISDA believes that the objective of fair value measurement should be to measure an instrument at its exit price no matter where it sits in the fair value hierarchy.

We therefore strongly believe that in order to establish a robust fair value measurement framework the guidance needs to be consistently applied to all levels of the hierarchy, including the guidance on applying bid-ask spread adjustments.

Question 24

Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRS? Please provide a basis for your view.

ISDA is broadly supportive of the disclosure requirements included in SFAS 157 as they are sufficiently based on a clearly established set of principles. Having said this, we are unclear as to whether the additional relevant information provides benefit to users on the disclosure of unrealised profit for level 3 fair values. It is also very difficult to prepare in practice.

In addition, if the disclosure requirements of SFAS 157 are introduced into IFRS, it will be important that IFRS 7 is amended (for instance to remove the disclosure requirements in paragraph 28 of IFRS 7 on ‘day one profits’), so as to harmonise and integrate the disclosure requirements for financial instruments.

Question 25

Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRS? If not, please specify what additional guidance you believe is needed and why.

The guidance in Appendices A and B of SFAS 157 illustrates the standard's principles and provisions sufficiently.

Question 26

Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts).

We do not believe that further guidance is required. In the context of financial instruments the challenges provided by emerging and developing markets are no different from those of other illiquid markets and so the same principles and provisions should apply.

Question 27

Please provide comments on any other matters raised by the discussion paper

We have no further comments.