



LONDON INVESTMENT BANKING ASSOCIATION
6 Frederick's Place, London, EC2R 8BT
Tel: 020-7796 3606 Fax: 020-7796 4345
Direct: 020-7367 5507 E-mail: ian.harrison@liba.org.uk

17 April 2009

IASB
30 Cannon Street
London EC4M 6XH

By email to: iasb@iasb.org

Dear Sirs

Proposed FASB Amendments on Fair Value Measurement and Impairment

I am writing on behalf of LIBA (the London Investment Banking Association) in response to the IASB's 20 March Request for Views¹ on the Proposed FASB Amendments on Fair Value Measurement (FSP No. FAS 157-e) and on the Proposed FASB Amendments to Impairment Requirements for Certain Investments in Debt and Equity Securities (FSP No. FAS 115-a, FAS 124-a and EITF 99-20-b). LIBA is, as you know, the principal UK trade association for firms active in investment banking and securities trading; a list of our members is attached.

Amendments on Fair Value Measurements

We do not believe the FSP as originally drafted was compatible with the objective of fair value as described in the IASB Expert Advisory Panel's October 2008 Report on fair value of financial instruments in inactive markets ("the Panel Report").

The Panel Report emphasised the need to use all available evidence and to exercise judgement, and this was also the view expressed in FSP No. FAS 157-3: both documents confirmed that an entity should not be forced to the last transaction price but should use all relevant information on an appropriately weighted basis when determining fair value.

The original amendment proposed in FAS 157-e, however, went much further than this and might have required preparers to ignore transaction prices entirely in certain circumstances. We do not believe that all transactions in inactive markets are necessarily distressed or that the prices of such transactions should be automatically disregarded.

¹ Our principal comments in this letter relate to the FASB Proposals as published on 17 March (and as summarised in the IASB Request for Views). Following their 2 April meeting the FASB announced a number of changes which were incorporated into the final FSPs issued on 9 April. In line with the IASB's 14 April supplementary request, we have included (in italics) certain comments on the final FSPs; it should be noted that these further comments are of a high-level nature, and that we may wish to provide more detailed comments at a later stage.

Preparers must be able to apply judgement on whether or not a transaction is distressed, and to what extent the price achieved is determinative of fair value. By changing the burden of proof in favour of a presumption that a sale is distressed in an inactive market, the proposed amendment would have restricted the ability of preparers to exercise this judgement. It is however likely that the evidence required to rebut such a presumption would be difficult to obtain in an inactive market, and that establishing and implementing the appropriate control framework under this approach would take significant time and effort. Additionally we do not believe it would be consistent with the conceptual framework underlying both IFRS and US GAAP to rely on a default assumption that a transaction in an inactive market is distressed, and hence not at arm's length.

We remain supportive of the approach outlined in the Panel Report, and suggest the IASB should ensure this is more widely understood as providing support for preparers to exercise judgement in determining to what extent a transaction in an inactive market is distressed and to what extent the price achieved is determinative of fair value, whilst not compelling the use of transaction prices alone. We recommend that the IASB should work with preparers and, importantly, with the audit community in providing education on this point, and that the relevant parts of the Report should be incorporated into IFRS guidance on the measurement of fair value.

We note that the FASB agreed at its meeting on 2 April to make a number of significant changes to the FSP as originally exposed for comment, and that these changes were included in the final version of FSP FAS 157-4 issued on 9 April. In particular, the presumption that all transactions in inactive markets are distressed unless proven otherwise has been replaced by a requirement to consider whether such a transaction is distressed based on the weight of relevant evidence. The final FSP also clarifies that the objective of fair value for assets in inactive markets remains the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date under current market conditions i.e. in the inactive market.

We welcome these amendments by the FASB, and agree with the view of the IASB Staff (as stated in the 7 April Press Release) that they result in an approach that is broadly consistent with the approach in the Panel Report. We therefore reiterate our above recommendation to the IASB, and suggest that the Board confirm that they see the final FSP as consistent with the Panel Report.

Impairment amendments

In general our members agree there is a need to review the current IAS 39 model for impairment, but they also believe that this may best be achieved through modifying the overall model for accounting for financial instruments, rather than through making such a change in isolation. We therefore support the IASB's efforts to work with the FASB to review IAS 39 with a view to its amendment or replacement, and would not want this overall project to be jeopardised by a sequence of short term amendments to the standard.

Notwithstanding the above, the majority of our members believe that the disaggregation of the impairment charge for AFS debt securities into two components, a fair value element related to credit losses and a non-credit element (i.e. fair value movements due to other factors), with only the first component being taken to the income statement (*as in the final version of FSP FAS 115-2 and FAS 114-2 issued on 9 April*), would significantly improve the

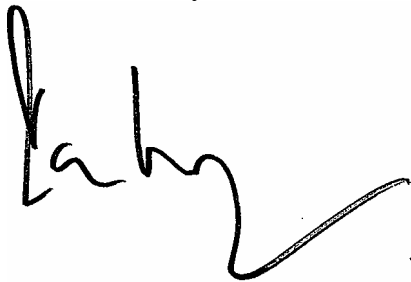
relevance of financial statements. They also believe that this amendment could be implemented as a short term "fix" to IFRS without compromising the wider project on accounting for financial instruments.

In view of the above, and in the interests of convergence and of the need to maintain a level playing field with US GAAP, we believe that the requirement in the FSP to split the impairment of AFS debt securities between credit and non-credit components should be introduced by the IASB as a short term amendment to IAS 39.

We have been unable, given the short time available, to review in detail the two final FSPs as issued on 9 April. Assuming that the IASB would, if it decides to propose similar changes, issue an Exposure Draft in accordance with normal due process, we would accordingly expect to provide detailed comments at that stage.

I hope the above comments will be helpful to the IASB in deciding how to take forward their work on these topics. We would of course be very pleased to expand on any points which you may find unclear.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping flourish extending to the right.

Ian Harrison
Director

LONDON INVESTMENT BANKING ASSOCIATION

LIST OF MEMBERS

ABN AMRO Bank	ING Bank NV London Branch
Altium Capital Limited	Instinet Europe Ltd
Ambrian Partners Limited	Investec plc
Arbuthnot Banking Group PLC	Jefferies International Limited
Arden Partners plc	JP Morgan Cazenove Ltd
Banc of America Securities Limited	JP Morgan Securities Ltd
Barclays Capital	KBC Peel Hunt Ltd
BlueOar Securities Plc	Lazard & Co., Limited
BNP Paribas	Libertas Capital Group plc
Brewin Dolphin Securities	Merrill Lynch Europe plc
Calyon	Mizuho International plc
Canaccord Adams Limited	Morgan Stanley & Co. International plc
Cantor Fitzgerald Europe	NCB Stockbrokers Limited
Cenkos Securities Limited	Noble & Company Limited
CIBC World Markets	Nomura Code Securities Limited
Citigroup Inc.	Nomura International plc
Close Brothers Corporate Finance Ltd	N M Rothschild & Sons Limited
Collins Stewart Europe Limited	Numis Securities Limited
Credit Suisse Securities (Europe) Ltd	Oriel Securities Limited
Daiwa Securities SMBC Europe Limited	Panmure Gordon & Co
Deutsche Bank AG London	Piper Jaffray Ltd
Dresdner Kleinwort	Royal Bank of Canada Europe Limited
Evolution Securities Limited	Sanford C. Bernstein Limited
Fox-Pitt Kelton Limited	Société Générale
Goldman Sachs International	3i Group plc
Greenhill & Co. International LLP	UBS AG London
HSBC Bank plc	Winterflood Securities Limited

17 April 2009