AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Sir David,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the IASB's ED/2010/7 *Measurement Uncertainty Analysis: Disclosure for Fair value Measurements (Limited re-exposure of proposed disclosure)*. Principal authors of this comment letter were Peter Bitzyk, Friedrich Hief, Philip Kudrna, Raoul Vogel and Roland Nessmann.

General remarks

We see and understand the political will and intention of the IASB to converge IFRS with US-GAAP in order to create a worldwide financial reporting regime. Thus – as stated in this ED (BC 4) – the proposed disclosure requirements shall "provide users of financial statements with a sense of the potential measurement uncertainty of fair value measurements within Level 3 of the fair value hierarchy, particularly given that fair value measurements using valuation techniques are more subjective than those derived from an observable market price".

However, we do not see how this goal can be achieved by disclosing hypothetical values in addition to the fair values that are reported in the statement of financial position:

- The use of unobservable inputs for the determination of fair values is restricted to circumstances in which neither Level 1 nor Level 2 fair values are available (IAS 39 p.48f). As unobservable inputs cannot be validated against the markets, correlations can neither be verified nor audited.
- From our point of view the disclosure of additional data which can neither be validated nor checked does not lead to decision useful information.
- We see the danger that "ranges of fair values" stemming from different but reasonable unobservable inputs would mask the quality of the fair values that are reported in the statement of financial position and lead to the impression of a decision usefulness we cannot see: These data are calculated on unobservable inputs and on even more unobservable correlations and effects and would lead to hypothetical effects on the data in the statement of financial position as well as in the statement of comprehensive income.

Response to Questions in the ED

Question 1

Are there circumstances in which taking into account the effect of the correlation between unobservable inputs a) would not be operational (e.g. for cost-benefit reasons) or b) would not be appropriate? If so, please describe below those circumstances.

As mentioned in the general remarks, we do not see any additional benefit in the reporting of hypothetical additional fair values based on unobservable assumptions at all. Instead, we expect additional costs for the preparation of the necessary data which nobody can reasonably interpret. Additionally, we fear that the ED could result in a mixture of sound figures (i.e. properly calculated and auditable) with purely hypothetical data in the financial statements. The border between these two kinds of information becomes washy and the investors' decisions would then be based on purely hypothetical, unauditable data.

Question 2

If the effect of correlation between unobservable inputs were not required, would the measurement uncertainty analysis provide meaningful information? Why or why not?

In the existing IFRSs (IAS 39 and IFRS 7) there is sufficient guidance for the calculation of fair values in the absence of either an active market or observable inputs as well as for the disclosure of the information about the calculation itself. The disclosure of additional, hypothetical fair values which cannot be checked or audited does by no means improve the quality or decision usefulness of financial reporting. We believe that unobservable data does not become more sound and useful if it is backed by additional unobservable data.

Question 3

Are there alternative disclosures that you believe might provide users of financial statements with information about the measurement uncertainty inherent in a fair value measurement categorised within Level 3 of the fair value hierarchy that the Board should consider instead? If, so, please describe a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

We do not see any benefit from such additional hypothetical values (see our answers to Q1 and Q2 as well as the general remarks) and believe that the current regulations are sufficient.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl
Chairman