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Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

14 September 2010

Dear Kevin

Exposure Drafts ED 195 and ED 199

I am enclosing a copy of the PricewaterhouseCoopers response to the following International Accounting Standards Board's (IASB) Exposure Drafts:

- ED/2010/3 *Defined Benefit Plans (proposed amendments to IAS 19)* [AASB ED 195]
- ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)* [AASB ED 199]

The letters reflect the views of the PricewaterhouseCoopers network of firms and as such include our own comments on the matters raised in the Exposure Drafts.

AASB specific matters for comment

ED 195 *Defined Benefit Plans*

The proposed amendments to the definition of 'return on plan assets' should be sufficient to clarify the treatment of superannuation contributions tax. However, we found BC 85 confusing in this context and have raised this with the IASB in our response to question 13 in the attached submission.

ED 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*

As explained in the enclosed submission, we are not supportive of the proposed changes to the disclosure requirements. However, should the IASB decide to go ahead and approve the new disclosures, entities that have elected to report under tier 2 of the new differential reporting framework should be exempt from providing such detailed information. This would be consistent with the approach taken in AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* in relation to the financial risk management disclosures in AASB 7 *Financial Instruments: Disclosures*. In particular, we note that tier 2 entities do not have to

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provide any of the information about the fair value hierarchy that is required under paragraphs 27A and 27B of that standard.

Both exposure drafts

We are not aware of any regulatory or other issues that could affect the implementation of either of the proposals for not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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7 September 2010

Dear Sir

Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure): Exposure Draft

We are responding to your invitation to comment on the above exposure draft on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft (ED). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We are not supportive of the Board's proposed change in disclosure requirements for measurement uncertainty. We understand that the Board has received feedback from certain financial statement users indicating that it may be helpful if the measurement uncertainty analysis for Level 3 fair value measurements took into account the effect of any correlation between unobservable inputs. While relevant and useful information is key to understanding the financial statements, we believe the proposed change in the disclosure will be difficult and costly to implement, and we have serious reservations as to whether it will provide a meaningful disclosure that comports to what the Board may be intending.

Based on our review of the proposal and our understanding of how it can and would be implemented by reporting entities, we believe that the information it requires would only be useful if presented at the position level within a portfolio or asset or liability class. Information relevant to an uncertainty "range" loses much of its meaningfulness when aggregated such as at the class level, because the range within a class may not be homogenous (or comparable) or may be impacted by other factors such as offsetting positions. Despite the greater relevance of this information at a disaggregated level, we believe that it would be complex and not be feasible to produce, and would result in disclosure where volume overwhelmed any meaningfulness. Furthermore, disclosure at a disaggregated level may provide competitive information that could be harmful to a reporting entity."

We also believe the requirement as articulated in the ED is not clear. Based on the illustrative example in the ED and the supplementary materials produced by the staff, it appears that what would be required by the proposal is to provide a range of possible outcomes at an aggregated level. Other parts of the of the proposal, such as BC5 and BC6, however, suggest that the

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disclosure should be a sensitivity analysis that determines the magnitude of the change in fair value given a specified change in unobservable inputs, but not necessarily the full range of possible estimates.

It is not well understood what is meant by correlation. The Basis for Conclusions in the ED states that the disclosure is not meant to require entities to perform a statistical correlation analysis. But it is not well understood what is meant by correlation if it is not meant to be statistically based. We believe that reporting entities will have difficulty in preparing the required disclosure because the objective, nature of the analysis and the substance of correlation is not clearly defined. Moreover, whether understood in a statistical sense or not, it is not clear that correlation is the right concept in this context. Rather than correlation, we recommend that the Board consider encouraging discussion of the relationships between variables when appropriate.

Even on the presumption that the requirement calls for the provision of the bounds of reasonable valuations—which is arguably the least-onerous interpretation of the requirement—it will be difficult for entities to comply in a manner that provides any additional meaningful information. Determining the boundaries of a reasonable estimate of fair value is not necessarily a by-product of the estimate actually made, and thus could require significant incremental effort. The number and nature of unobservable variables in some valuations, such as those involving biological assets for example[1], could make the determination of the upper and lower limits of a reasonable valuation very onerous. Entities, such as financial institutions with a large number of financial instruments recognised at fair value, may have thousands of level 3 valuations involving hundreds, if not thousands of unobservable inputs.

Because of the above issues, we question whether the proposal will increase the ability of users of the financial statements to make better, more informed decisions than today when using existing fair value measurement disclosures. For example, reporting entities are currently required to disclose their valuation techniques, inputs to the valuation techniques and changes to those techniques. The requirement to include a reconciliation of movements in Level 3 fair value measurements by class provides an additional layer of information that can be used to assess the volatility inherent in the measurements. We believe the combination of these disclosures provides useful information for assessing the overall risk and judgment involved in Level 3 fair value measurements. In addition, we are cognizant that excessive disclosure places a cost burden on preparers and of the risk that the totality of disclosure will become overwhelming, lessening any potential benefit.

Finally, we believe this proposed disclosure requirement raises a fundamental question about how management's judgments inherent in estimates should be conveyed within the financial statements. We believe that the uncertainty inherent in estimates is not isolated to fair value measurements, but rather is an issue that applies broadly to all significant management estimates in the financial statements. In our view, the proposed measurement uncertainty analysis would be best considered as part of a broader financial statement disclosure project that would include an overall framework for determining when and how key assumptions and judgments should be captured and conveyed in financial statements. A broader project will provide the time to consider the totality of information provided to users through disclosure and to make an assessment as to what information is most useful to convey about management's judgments and key assumptions.

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[1] Unobservable inputs that could have a role in the estimate of the fair value of biological assets include (but are not necessarily limited to) yields, disease and other health issues, weather, feed, fertilizers, labour, and period to reach maturity.

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Our answers to the Board's specific questions are attached in Appendix A to this letter.

If you have any questions in relation to the letter please do not hesitate to contact John Hitchins, PwC Global Accountant (+44 207 8042497) or John Althoff (+44 207 213 1175).

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix A

Question 1: Are there circumstances in which taking into account the effect of the correlation between unobservable inputs (a) would not be operational (eg for cost-benefit reasons) or (b) would not be appropriate? If so please describe those circumstances.

We believe that in most circumstances taking into account the effect of correlation between unobservable inputs would not be operational or appropriate, for the reasons described in the cover letter.

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?

The incremental difference in meaningfulness between excluding and including the effect of correlation is difficult to gage, given the above-noted obscurity surrounding the intended notion of correlation and its application in the context of an uncertainty analysis.

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

As noted above, we believe that the combination of other existing and proposed disclosure requirements provides users with useful information for assessing the overall risk and judgment involved in Level 3 fair value measurements. For example, IFRS 7 requires the disclosure of valuation techniques, inputs to valuation techniques, and changes to valuation techniques used to measure financial instruments, and the May 2009 Fair Value Measurement ED proposed expanding these requirements to all assets and liabilities measured at fair value. The requirement to include a reconciliation of movements in Level 3 fair value measurements by class, also included in IFRS 7 and the May 2009 ED proposals, provides an additional layer of information that users can use to assess the uncertainty inherent in measurements. IAS 1 also requires the disclosure of information about major sources of uncertainty. If the IASB decides to move forward with additional required disclosures for fair value measurements classified within Level 3 of the fair value hierarchy, we recommend that the Board consider qualitative disclosure alternatives such as requiring further descriptions of the inputs pertaining to Level 3 measurements with a specific focus on the ones that are interrelated and carry significant uncertainty.