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Date: December 10, 2008

Your reference:
exposure draft
Improving Disclosures
about Financial Instruments

Our reference:
exposure draft
comment

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Dear Board,

With pleasure we follow up on your invitation to comment on the above mentioned exposure draft to IFRS 7. We limit our comment to your question 1:

Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

After careful consideration we have come to the conclusion that the answer should be negative. Our reasoning behind that negative conclusion is the following. In normal circumstances and in any case theoretically, market values should reflect basic underlying assumptions as to the value of the instrument involved. However, market circumstances are not always normal and markets do not always behave as they should theoretically. The fair value hierarchy as proposed reflects the idea that the level 3 option, using valuation techniques for which any significant input is not based on observable market data, is inferior to using of levels 1 and 2.

As mentioned before it is our believe that market circumstances are not always normal and markets do not always behave as they should theoretically. In those cases the level 3 option is to be preferred over levels 1 and 2. The difficulty is how to determine abnormal market circumstances and how to integrate that in the proposed fair value hierarchy.

Your staff made already a worthwhile attempt to determine abnormal market circumstances in their publication of October 2008: "*Using judgement to measure the fair value of financial instruments when markets are no longer active*". In our opinion that attempt under paragraphs 15 and 15 should be further refined and upgraded. There are indeed cases where "*using unobservable inputs might be more appropriate than using observable inputs*." Their conclusion that: "*an entity uses observable transaction prices to the extent they represent the fair value of the instrument. If they do not represent the fair value of the instrument, and significant adjustments need to be made to the observable transaction prices, it might be more appropriate for the entity to use a valuation technique based on unobservable inputs.*"

This point is not reflected in the fair value hierarchy as proposed. Therefore we propose that on top of or besides or before a fair value hierarchy is applied, it should be determined whether abnormal market circumstances prevail. When so, it should be made clear that level 3 methods are to be preferred or have at least equal hierarchy levels.

As to the point how to determine when abnormal market circumstances, we suggest to consider some leeway to common sense. Common sense combined with well established valuation methods and techniques leading to a "fair value" conclusion deviating substantially from market prices, also in active markets, should be accepted as an indication of abnormal market circumstances or a "distressed" market. It should also be taken into consideration that markets can be distressed or abnormal when prices are abnormally high as happens during booms in specific markets (internet boom end last century e.g.).

Best Regards,

Corneel B.A. Spil RMC, acting as chairman on behalf of OvRAN, Netherlands.