Re: ED – Measurement uncertainty analysis disclosure for fair value measurement

Dear Sir or Madam,

MAZARS welcomes the opportunity to comment on the IASB Exposure Draft, Measurement uncertainty analysis disclosure for fair value measurement. Our answers to the Exposure Draft questions are shown in the appendix to this letter which summarises our concerns and opinion.

We agree with the Board proposal to limit the uncertainty analysis to unobservable inputs. In our opinion, this is consistent with the distinction between fair value disclosure and market risk disclosure. For example the correlation between an observable input and a non observable input is relevant for market risk disclosure purpose but not for fair value disclosures, while the sensitivity of fair value measure to unobservable calculation factors gives an information on the reliability of such fair value.

We agree that, when a relevant and significant correlation effect is identified by the risk management of an entity, the fair value measurement uncertainty analysis disclosed shall take it into account even if it will probably be itself a level 3 input with its own uncertainty.

Besides we support the Board proposal to modify the wording “reasonably possible alternative assumptions” by the sentence “an entity shall not take into account unobservable inputs that are associated with remote scenarios” as it achieves the convergence objective.

Our detailed answers are set out in the Appendix.

Do not hesitate to contact us should you want to discuss any aspect of our comments.

Best regards,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
APPENDIX

Correlation between unobservable inputs

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.

Correlation between unobservable inputs is a complex issue. The level of knowledge on it will probably defer from one entity to another resulting in differences in practice.

We consider that the correlation between two unobservable inputs will necessarily be a level 3 input itself. Therefore, the resulting fair value measurement will probably present a low reliability.

It is difficult to assess whether this process would be operational or not as the benefit is somehow uncertain given the complexity of this input, the resulting diversity in knowledge of preparers in this respect, and the low reliability of the resulting fair value.

Therefore we would recommend to the Board to require an entity to take into account the effect of relevant and significant known correlation only when the entity takes this parameter into account in its internal risk management process that is able to identify and assess this correlation.

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?

We consider that, in order to provide meaningful information, correlation between unobservable inputs has to be taken into account in the valuation process each time this input is used by the entity risk management which means its effect on the valuation is expected to be significant and relevant.

Alternatives to measurement uncertainty analysis

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

We are not aware of any alternative disclosure that might provide users of financial statements with information about the measurement uncertainty inherent in level 3 fair value measurements.

Besides, we encourage the Board to clarify that no additional disclosure will be required with respect to level 3 correlation inputs in themselves.