



# Grant Thornton

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street  
WEST VICTORIA 8007  
By Email: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)

Grant Thornton Australia Limited  
ABN 41 127 556 389

Level 17, 383 Kent Street  
Sydney NSW 2000  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230

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**T** +61 2 8297 2400  
**F** +61 2 9299 4445  
**E** [info.nsw@grantthornton.com.au](mailto:info.nsw@grantthornton.com.au)  
**W** [www.grantthornton.com.au](http://www.grantthornton.com.au)

Dear Kevin

## **AASB EXPOSURE DRAFT ED 199 & IASB ED 2010/7 MEASUREMENT UNCERTAINTY ANALYSIS DISCLOSURE OF FAIR VALUE MEASUREMENTS**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on ED 199 which is a re-badged copy of the International Accounting Standards Board's (the Board) ED 2010/7 (the ED). We have considered the ED and set out our comments below.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies, and public and private businesses, and this submission has benefited with input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton global submission will be finalised by the IASB's due date of 7 September 2010.

### **General Comments The Proposed Amendments**

At a general level, we do have some concern over the increasing amount of sensitivity analysis that is being incorporated into IFRS. Sensitivity disclosures are already required under IFRS 7 *Financial Instruments: Disclosures* and the recent Exposure Draft *Financial Instruments: Amortised cost and Impairment* proposes to add to these. The proposed fair value measurement uncertainty analysis disclosures would add still more disclosures, and would be more widespread in terms of their scope.

By nature the figures in the primary financial statements are affected by a variety of management estimates and judgements. Our concern is that flexing some figures and not others, may distort the picture presented to the user of the accounts. There is a risk that the

reader will assume that where IFRS does not require uncertainty disclosures, the figures are more reliable. This may not correspond to the underlying economic reality.

Against this background, we question why the ED singles out one particular area of the measurement uncertainty analysis disclosure that was proposed in the wider fair value measurement project. If the Board is concerned that fair value measurements within Level 3 of the hierarchy are not very reliable, then it is questionable whether disclosing ever more information can compensate for this. It may instead indicate that fair value is not an appropriate measurement method for such items.

Having noted this general concern, we do not have any objection to the specific proposal in the ED to take into account the effect of correlation between unobservable inputs, when relevant, when disclosing a measurement uncertainty analysis.

Correlation can be an important factor when trying to understand how using a different unobservable input would affect a fair value measurement. Requiring entities to consider the effect of correlation between unobservable inputs will not only provide useful information for users of the financial statements, but should also encourage preparers to adopt a rigorous process when preparing their disclosure of measurement uncertainty. We recognise that introducing additional requirements will increase costs for some preparers. We feel however that the increase in costs will be mitigated by only requiring disclosure of correlation when relevant and by the decision not to require disclosure of quantitative information.

We also support the removal of the term 'reasonably possible alternative assumptions' from the proposed Standard in the interests of convergence with US GAAP.

#### **Non-Publicly Accountable Entities**

We note that the IASB has not indicated whether it will amend the existing requirements for non-publicly accountable entities, and on that basis we believe the AASB should not consider any decision on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on IFRS for SMEs disclosures.

Grant Thornton does not believe that at this time amendments to existing fair value standards should apply to non-publicly accountable entities and hence the proposals contained in the ED are not ones that we believe should be relevant. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

We expand on the above comments in our responses to the questions in the ED's Invitation to Comment Questions, and the AASB's request for comments, which are set out in the Appendix to this letter.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly  
National Head of Professional Standards

# Appendix 1: Responses to Invitation to Comment Questions

## Invitation to Comment questions

### 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 are not aware of specific circumstances in which taking into account the effect of correlation would not be either operational or appropriate. Should such circumstances exist, we feel that any potential problems will be mitigated in part by the ED's proposal to only require disclosure of correlation when relevant. The proposal to not require quantitative information should also act to reduce the costs of compliance where operational problems are encountered.

### 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 believe that taking into account the effect of correlation between unobservable inputs will provide more meaningful information than would be the case were that effect to be ignored. At the same time, the proposal that disclosure need not be quantitative in nature reflects the uncertainty and subjectivity associated with Level 3 fair value measurements.

Requiring entities to take into account the effect of correlation may also have advantages if it means entities adopt a more rigorous and joined up approach to producing Level 3 fair value measurements.

## 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 do not believe alternative disclosures are necessary.

### **AASB Request for comments**

**1. The AASB would particularly value comments on whether:**

**(a), there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

- (i) not-for-profit entities; and**
- (ii) public sector entities;**

**(b) the proposed disclosure should be included in the Australian Accounting Standards – Reduced Disclosure Requirements;**

**(c) overall, the proposals would result in financial statements that would be useful to users; and**

**(d) the proposals are in the best interests of the Australian and New Zealand economies.**

(a) We are not aware that there are regulatory or other issues arising in the Australian environment, apart from our earlier comments on the proposals. We believe that there are regulatory and other issues arising in the Australian environment for non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.

(b) We note that the IASB has not indicated whether it will amend the existing requirements for non-publicly accountable entities, and on that basis we believe the AASB should not consider any decision on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on IFRS for SMEs disclosures. Grant Thornton does not believe that at this time amendments to existing fair value standards should apply to non-publicly accountable entities and hence the proposals contained in the ED are not ones that we believe should be relevant. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for

SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities

(c) We are not aware of any reasons that would impact on the usefulness of these proposals to users for publicly accountable entities, apart from our earlier comment on the proposals. However we do not believe that these requirements should apply to non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.

(d) For publicly accountable entities, apart from our earlier comments on the proposals, we are not aware of any reasons that would impact on the interests of the Australian economy and our New Zealand firm will comment direct to the AASB if there are any New Zealand implications. We do not believe that these requirements should apply to non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.