



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

September 6, 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft on Measurement Uncertainty Analysis Disclosure for Fair Value Measurements.

Dear Board Members,

The “Comitê de Pronunciamentos Contábeis” - CPC¹ welcomes the opportunity to comment on the Exposure Draft named **Measurement Uncertainty Analysis Disclosure for Fair Value Measurements**.

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

If you have any questions about our comments, please contact Mr. Geraldo Toffanello² (geraldoffanello@qerdau.com.br), coordinator of a working group constituted to study any proposal-stage literature issued by the IASB.

Yours sincerely,

Edison Arisa Pereira
Technical Coordinator
Comitê de Pronunciamentos Contábeis (CPC)

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

² Mr. Geraldo is also member of the IFRS Advisory Council.



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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 those circumstances.

COMMENT:

Assuming that the disclosure of the existence of correlation between unobservable inputs and the effect of this correlation in the fair value measurements categorised within Level 3 of the fair value hierarchy are relevant information to users of financial statements, then:

(a) It would not be operational to take into account the correlation between unobservable inputs when there is not enough information available to determine the correlation, the degree of correlation and statistical significance of this correlation, because small samples produce large confidence intervals for the statistical significance of the correlation (testing the statistical significance of correlation requires an appropriate amount of data). Therefore, we understand that the cost to obtain data in adequate quantity to identify and to test the correlation between unobservable inputs exceeds the benefits provided by the information;

(b) It would not be appropriate to take into account the correlation between unobservable inputs when this correlation is not statistically significant or when it is spurious (for the existence of a common cause or latent variable, for example). Besides, correlation does not necessarily imply causation. Therefore, we suggest that the entity only take into account the correlations that are statistically significant (valid) and relevant (high correlation). Additionally, we suggest that the entity should disclose the degree of correlation, which enables users to examine whether the variables are highly correlated or not.

QUESTION 2 AND 3:

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

(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.

COMMENT (A single response for question 2 and 3):

We believe that the “measurement uncertainty analysis” should not be understood as a simple sensitivity analysis, but something broader. In other words, the amplitude of an uncertainty analysis should cover the uncertainties in fair value measurements that are inherent to (i) the measurement model used and the inputs required by him (inputs to be considered alternative, but valid for the measurement and that, had they been used, would result in a fair value significantly different), and (ii) the sensitivity of the fair value of certain key inputs (when a small change in a given input causes a significant change in fair value, for example).

Considering the above and the illustrative example shown in paragraph IE4 in the Exposure Draft, we believe that regardless of the effect of correlation between unobservable inputs used



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in the model, the presentation of a range of fair value measurements (Difference In Fair Value From Using Different Unobservable Inputs Reasonably That Could Have Been Used) does not provide meaningful information to users. Rather, it would increase the possibility of management bias. Our rationale for such statement is because instead of helping the user to better understand the uncertainties in the measurement, such disclosure would potentially raise doubts about the reasonableness of the fair value assumptions used ((e.g., the user of the financial statement may question the amounts disclosed and raise questions such as: Which fair value is correct? Which fair value is more appropriate?).

We understand that a measurement uncertainty analysis for fair value measurements categorized within Level 3 will be more useful if presented in narrative form (explaining the choice of the model and inputs used and discussing uncertainties inherent in the model and inputs used and the sensitivity of the fair value of certain inputs), i.e. without disclosing the amount of the effect of using an alternative input or a different amount for given input used (independently of the presence of correlation between unobservable inputs).

Although we do not support the suggested disclosure presented in the ED , if the Board decides to maintain the requirement to take into account the effect of correlation between unobservable inputs, we suggest that to be considered only correlations that are (i) statistically significant and (ii) economically relevant. This implies that the entity must apply the appropriate statistical tests. In this case, we understand that the information below should be additionally required:

- (a) the nature (linear correlation, for example) and the degree of correlation; and
 - (b) if the uncertainty is due to the measurement model (alternative model or inputs to be considered and which have been considered the fair value calculated would be significantly different and the reasons why they weren't used) and/or if it is due to the sensitivity of fair value measurements to key inputs (describing the uncertainties associated with these inputs);
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