

ABI comments on CESR document

***“Statement on Fair value
measurement and related
disclosures of financial
instruments in illiquid
markets”***

September 2008

| Paragraphs | Questions | Comments |
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| <p>1. Measurement</p> | <p>1. Do you agree with CESR's views above regarding the distinction between active and non active markets for fair value measurement?</p> | <p>In our opinion current definition of active and inactive market is quite unclear and, accordingly difficult to be consistently applied between entities. Criteria suggested by IAS 39 while meaningful are awkward to implement in a consistent manner.</p> <p>In this context we agree with CESR that entities shall develop their own policies for defining when a market is active and that such policies will be consistent over time.</p> <p>In this context the criteria that could be employed, in accordance with entity's own policy, to define if a market is active are not limited to those identified in par. 23 but can be inferred by other factors besides the number of transaction or the spreads.</p> <p>With reference to par. 24, we also think that definition of fair value in active market should be limited to quoted executable prices in the very same instruments subject to measurement. Pricing determined through recent transactions (when market conditions have changed), similar instruments, or adjusted quotes should not in our opinion be considered as active market fair value.</p> <p>This would be important also for the disclosure proposed later in the document as:</p> <ul style="list-style-type: none"> - it would grant a clearer hierarchy of fair value; - it would achieve consistency with FAS 157 that is proposing a similar fair value hierarchy. |

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| 1. Measurement | 2. Do you agree with CESR's views above regarding inputs to valuation techniques for financial instruments in illiquid markets? | We agree with CESR. However, we think that the main matter we should focus on in order to achieve consistency is the work performed by IASB in order to develop a principle based standard on fair value measurement culminated with the issuance of the Discussion paper: "Fair value measurement". |

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| 2. Disclosure | 3. Do you agree with CESR's views above regarding disclosures of financial instruments in illiquid markets? | <p>We agree with the topics proposed. We deem that in such market conditions (illiquidity and instability) the entities should disclose more detailed information on policies used for determining fair value of instruments affected by the turmoil.</p> <p>Regarding financial instruments not affected by the turmoil, we notice that standard setters are developing their own project for fair value measurement and related disclosures together with a project for a revised accounting. Accordingly requirements for an increased disclosure on all financial instruments should be developed in the context of such projects through an integrated effort by standard setter and regulators.</p> |

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| 2. Disclosure | 4. Do you agree that the benefits of the presentation of disclosures regarding financial instruments in illiquid markets in the example in Box 2 outweigh the costs of preparing this information? | <p>In our opinion the disclosure proposed in Box 2 goes beyond current IFRS 7 requirements as it tries to introduce disclosure requirements currently dictated by FAS 157 which has already been applied in US but is still a discussion paper in Europe.</p> <p>We also note that Box 2 by introducing sub-level to the three main hierarchy levels introduces a fair value hierarchy that is extended if compared with FAS 157 hierarchy.</p> <p>Implementation of proposed box 2 would, accordingly, be difficult to do in the short term as it would require to attribute a level and sublevels to every financial instruments held and measured at fair value</p> <p>Additionally, there is the risk that the proposed hierarchy will become useless if levels that will result from the mentioned Fair value measurement project will be differently defined.</p> <p>In this context, as mentioned in our answer to question 1, we notice that according to that project only instruments measured through unadjusted market quotation can be defined as “quoted in active market” while, according to CESR/IASB proposed definition, such category would also include fair value determined through recent transactions as well as adjusted quotation.</p> <p>We recognize, nonetheless, the need to provide additional information on how fair value of certain instruments is measured. Accordingly, for the short term we would propose to require</p> |

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| | | disclosure of fair value hierarchy only for structured credit products using a fair value hierarchy aligned with the one dictated by FAS 157 (thereby limiting disclosure to three levels). |
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