

# COUNCIL OF INSTITUTIONAL INVESTORS

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## Via Email

December 15, 2008

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

Dear Mr. Chairman:

I am writing on behalf of the Council of Institutional Investors (“Council”), an association of more than 140 public, corporate and union pension funds with combined assets of over \$3 trillion.<sup>1</sup> As a leading voice for long-term, patient capital, we appreciate the opportunity to provide comments in response to the International Accounting Standards Board’s (“IASB”) exposure draft *Improving Disclosures about Financial Instruments* (Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*) (“Proposal”).<sup>2</sup>

At our October 7, 2008 meeting, the Council’s general membership approved an update to our policy on independence of accounting and auditing standard setting (“Policy”).<sup>3</sup> The Policy encompasses the view that high quality accounting standards are standards that are “designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors and other consumers of audited financial reports.”<sup>4</sup>

Consistent with the Policy, and the view of many other consumers of financial reports, accountants, auditors, and other market participants, we generally believe that:

In the specific case of fair value reporting, investors require an accounting standard that reports a relevant and useful value of financial instruments regardless of the direction of the markets. Fair value accounting *with robust disclosures* provides more reliable, timely, and comparable information than amounts that would be reported under other alternative accounting approaches.<sup>5</sup>

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<sup>1</sup> For more information about the Council of Institutional Investors and its members, visit our website at <http://www.cii.org/>.

<sup>2</sup> *Improving Disclosures about Financial Instruments*, Proposed amendments to IFRS 7 (Int’l Accounting Standards Bd. Exposure Draft Oct. 2008), [http://www.iasb.org/NR/rdonlyres/1EB5581B-A460-40AF-9F66-0B9314A46C32/0/ED\\_AmendmentstoIFRS7\\_WEBSITE.pdf](http://www.iasb.org/NR/rdonlyres/1EB5581B-A460-40AF-9F66-0B9314A46C32/0/ED_AmendmentstoIFRS7_WEBSITE.pdf) [hereinafter Proposal].

<sup>3</sup> The Council of Institutional Investors, *Policies on Other Governance Issues, Independence of Accounting and Auditing Standard Setting* (Updated Oct. 7, 2008), [http://www.cii.org/UserFiles/file/council%20policies/CII%20Policies%20on%20Accounting%20and%20Auditing%2010-7-08\(1\).pdf](http://www.cii.org/UserFiles/file/council%20policies/CII%20Policies%20on%20Accounting%20and%20Auditing%2010-7-08(1).pdf) [Hereinafter Policy]. For more information about the Council’s policies, visit our website at <http://www.cii.org/policies>.

<sup>4</sup> Policy, *supra*, at 1.

<sup>5</sup> Letter from Cindy Fornelli et al. to The Honorable Christopher Cox 1-2 (Nov. 14, 2008), <http://www.sec.gov/comments/4-573/4573-175.pdf> (emphasis added); *accord* Letter from Jeff Mahoney to Ms. Florence E. Harmon 4 (Oct. 29, 2008), <http://www.sec.gov/comments/4-573/4573-95.pdf> (“We believe that fair value accounting for financial instruments, complemented by robust disclosures, is superior to other accounting alternatives in (1) providing investors clear and accurate information, and (2) restoring the free flow of money and credit to the U.S. and global capital markets”).

More specifically, we share the view that has been expressed by users of financial statements to the IASB that (1) “enhanced disclosures about fair value measurements are required, especially in the light of the present market conditions,” and (2) that “the Board should consider disclosures similar to those included in Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board.”<sup>6</sup>

Moreover, we agree with the conclusion of the IASB that the disclosures contained in the Proposal “would improve comparability between entities about the effects of fair value measurements as well as increasing the convergence of IFRSs and US generally accepted accounting principles.”<sup>7</sup> We, therefore, strongly support the Proposal.

We note that earlier this year the Council commissioned Stephen G. Ryan, a leading expert in fair value accounting, to prepare a white paper relating to SFAS 157.<sup>8</sup> The resulting attached white paper, entitled *Fair Value Accounting: Understanding the Issues Raised by the Credit Crunch*, includes the following recommendations to improve the SFAS 157 disclosures:

[T]he FASB should require firms to disclose their significant level 3 inputs and the sensitivities of the fair values to these inputs for all of their material level 3 model-based fair values. If such disclosures are required, then level 3 model-based fair values likely would be informationally richer than poor quality level 2 fair values.<sup>9</sup>

We, therefore, are particularly supportive of ¶27B(d) of the Proposal. That paragraph, generally consistent with Professor Ryan’s recommendation, requires disclosures relating to level 3 inputs of “reasonably possible alternative assumptions [that] would change fair value significantly [and] . . . the effect of those changes for each class of financial instrument.”<sup>10</sup> We also agree with the IASB that those disclosures are especially beneficial because they “would inform users of financial statements about the effects of those fair value measurements that use the most subjective inputs.”<sup>11</sup>

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<sup>6</sup> Proposal, *supra*, at ¶2; see Fornelli et al., *supra*, at 2 (“We acknowledge that disclosures about the application of fair value reporting may be improved”).

<sup>7</sup> Proposal, *supra*, at ¶BC4.

<sup>8</sup> Stephen G. Ryan, *Fair Value Accounting: Understanding the Issues Raised by the Credit Crunch* (July 2008), [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2008/CII%20Fair%20Value%20Paper%20\(final\)%2020071108.pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2008/CII%20Fair%20Value%20Paper%20(final)%2020071108.pdf) [See Attachment].

<sup>9</sup> *Id.* at 11.

<sup>10</sup> Proposal, *supra*, at ¶27B(d).

<sup>11</sup> *Id.* at ¶BC7.

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The Council appreciates this opportunity to provide comments on the Proposal. Please feel free to contact me at 202.360.9919 or [jeff@cii.org](mailto:jeff@cii.org), or my colleague Paul Simenauer at 202.360.3650 or [paul@cii.org](mailto:paul@cii.org), with any questions regarding this letter or the attached white paper.

Sincerely,

A handwritten signature in cursive script that reads "Jeff Mahoney".

Jeff Mahoney  
General Counsel  
Council of Institutional Investors

Attachment