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Organización Internacional de Comisiones de Valores
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Organização Internacional das Comissões de Valore

September 24, 2009

Discussion Paper: Credit Risk in Liability Measurement
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Discussion Paper: Credit Risk in Liability Measurement

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Discussion Paper, *Credit Risk in Liability Measurement* (the Discussion Paper or the Paper).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 (SC1) seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

The Discussion Paper focuses on the very difficult and controversial question concerning the role of credit risk in the measurement of a liability. We believe the paper provides a well thought out discussion of the arguments in favor and against incorporating credit risk in the measurement of a liability. We support the Board's project and invitation to comment on the role of credit risk in measuring liabilities and how users of financial statements consider this information.

As part of the amendments to IAS 39, *Financial Instruments: Recognition and Measurement*, in June 2005, the Board introduced the fair value option which was designed to allow greater use of fair value in subsequent measurements of financial liabilities. At that time, the Board considered and concluded that the fair value of a liability incorporates the credit risk for that liability. Given recent market conditions and experience gained through use of the fair value option under IAS 39, we believe this is an opportune time to revisit how users consider, and the importance and

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relevance they place, on liability measurement, including the effects that an entity's own credit risk may have on initial and subsequent measurement. While we believe it is important to consider feedback from analysts and users on recent experiences with liabilities measured at fair value by applying the fair value option under IAS 39, we acknowledge that the subject of the Discussion Paper covers a much broader scope than instruments eligible for this fair value option. Therefore, recent experience on the use of fair value in the measurement of financial liabilities may not answer all of the existing questions that users, preparers and other constituents may have.

We generally believe that the initial measurement of a liability should incorporate credit risk if credit risk is present in pricing of the initial exchange for the liability. If the initial exchange is negotiated in an arms-length transaction for monetary consideration, then the question is much less controversial because credit risk is generally incorporated into the negotiated transaction price. In these instances, there is a more standardized practice for how credit risk is incorporated into the transaction price. We are not certain that this always holds true for the initial exchange involving a non-financial liability since non-financial liabilities may not contain the same pricing characteristics as financial liabilities. For example, is the negotiated price for non-financial liabilities as sensitive to the credit risk profile of a counterparty compared to the negotiated price for a financial liability and does the counterparty have visibility to quantify the amount of credit risk incorporated into pricing non-financial liabilities (e.g., performance obligations)?

We can appreciate it is more difficult to determine the appropriate role of credit risk in subsequent measurement of a liability. We can understand the usefulness of contractual liability amounts to an investor in projecting the issuer's future cash flows. At the same time we can appreciate the value of understanding the extent of the opportunity that arises from credit risk effects on the amount at which those obligations could be currently discharged. The challenge is how best to communicate to financial statement users all the relevant information.

Again, we support the Board's project and invitation to comment on the role of credit risk in measuring liabilities and although we have not developed a consensus view for how credit risk should be incorporated in the measurement of all liabilities, we believe it is critical to understand the usefulness of incorporating credit risk and changes in credit risk in the measurement of liabilities to financial statement users. In this regard, we encourage the Board to continue its outreach efforts in seeking the views of financial analysts and other users on this topic.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1