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Paris, May 2007

Le Président

JFL/

N°

Jon Nelson
International Accounting Standards Board
30 Cannon Street
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FAIR VALUE MEASUREMENT DISCUSSION PAPER

Dear Mr Nelson,

I am writing on behalf of the CNC to give you our views on the above-mentioned Discussion Paper (DP). Our detailed responses to the questions in the DP are set out in the attached Appendix.

We are not in favour of the proposals set out in the DP and summarise our objections below:

1.The objectives of the DP

1.1.We understand from §6 to §9 of Part 1 that the objective is to improve the quality of fair value information in financial reporting by introducing

-a single source of guidance

-a single definition and common application guidelines for fair value.

The main proposal of the DP would lead to generalising the use of the market-based exit price measurement objective to all "fair value" measurement in existing IFRSs. This would introduce changes in the measurement objectives of certain IFRSs and therefore goes beyond the objective of using consistent terminology.

1.2.Hence "fair value" is currently used in IFRSs to indicate not only a market-based exit price but also other measurement bases such as entry price (e.g.IAS 39 for initial recognition of non-trading financial assets) or net present value (for certain items in IFRS 3) which have different objectives to the market-based exit price.

The generalisation of the market-based exit price therefore represents a modification of the measurement objectives in these standards.

Before carrying out such a change, the criteria for applying market exit price and the other measurement bases need to be defined (see 2.1. below). Until the appropriate criteria have been defined it is not possible to determine the relevance of the main proposal of the DP.

Additionally, a review of the effects of these changes on the application of existing IFRSs should be carried out.

1.3. We therefore believe, at this stage, that a single guidance based only on a market-based exit price would not attain the objective of improving the quality of fair value information in financial reporting.

2.The generalisation of a "market-based" exit price pre-empts the outcome of several major IASB projects

2.1.The measurement phase in the conceptual framework project

The DP proposals should be examined in the light of the principles determining when each measurement base is appropriate.

We recommend that the DP proposals should be postponed until the appropriate criteria are defined.

We suggest that these criteria should include:

(a) Whether the measurement objective is relevant to the business model of the reporting entity

(b) Whether liquid markets generally exist for the types of assets and liabilities to be measured

2.2.The revenue recognition project

2.2.1.The DP proposes the recognition of so-called "Day 1 profit" on the basis of unobservable "market data". This proposal which represents a change from current IAS 39 principles is not supported by sufficient argumentation.

2.2.2.The market exit price measurement objective reflects a view of revenue recognition, which requires validation. Measurement at the market-based exit price is the equivalent of recognising a sale of the asset or a transfer of the liability whereas the entity may not have satisfied the performance conditions for the recognition of a sale under existing IFRSs. Before changing current revenue recognition principles, new criteria need to be determined and validated. The DP supersedes the business model approach allowed under existing IFRS and pre-empts the discussion on revenue recognition.

2.3.The first phase of the conceptual framework project on the objectives and qualitative characteristics of financial reporting.

We suggest that the proposals of the DP should be consistent with the objectives and qualitative characteristics of financial reporting.

Our comments in 3 below question whether an extension of the market based exit price measurement objective provides information that is:

- decision-useful
- verifiable

2.4.The consistency of the DP with other IASB projects dealing with measurement requires verification: Insurance Phase 2,Financial Instruments Due Process Document, Business Combination 2, IAS 37 and IAS 41.

3.The limitations inherent to the market based exit price measurement approach

3.1. In many cases, there will not be observable market data. We question the relevance and reliability of "hypothetical market" information as compared to the entity's own estimations based on the present value of future cash flows .We further question whether unobservable data qualify as "market" information.

3.2.The measurement objective should be consistent with the reporting entity's business model. e.g. where assets are held for long term use in the business it would not be consistent to value them as if they were to be sold on the market .As a result, the market–based exit price will ,in many cases, not reflect the probable cash flows of the entity .We therefore doubt the relevance of such information for decision taking.

3.3.We disagree with the use of transfer value for measuring liabilities in most cases where the entity will settle the liability itself in the ordinary course of business. There will, in many cases, be no market for transferring liabilities and where such a market exists the margin taken by the transferee to cover uncertainties and profit may make the price dissuasive for the transferor, so that the transfer value will not reflect probable cash outflows of the entity.

Conclusion

We agree that terms should always be used with the same meaning in IFRSs. Therefore, it is a positive objective to seek a common definition for fair value. Because fair value is currently used to describe different measurement bases, we would be in favour of replacing the term by the corresponding terms such as "current exit price" or "entry value"etc.

However, we would only be in favour of using a market-based exit price in certain cases, as stated above.

Furthermore, we would like to take this opportunity to express our interest in taking part in the round-table meetings to be held in conjunction with the preparation of the exposure draft, as proposed in §3 of the "Invitation to Comment".

We hope you have found these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-François Lepetit

APPENDIX

DISCUSSION PAPER-FAIR VALUE MEASUREMENT

ISSUE 1 SFAS 157 and fair value measurement guidance in current IFRSs

Q1 In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not?

CNC's Comments

1.1. This question includes implicitly 2 parts:

(a) Should guidance be given ***in one place*** instead of being dispersed throughout individual standards?

(b) Should ***a common definition of fair value*** be used throughout IFRSs in order to ensure a consistent measurement base?

1.2. Guidance as to when different measurement bases apply should be given in the framework .The guidance as how to apply the general measurement principles to a specific standard would logically be given in that standard by reference to the nature of the transaction and corresponding assets and liabilities.

1.3.The term fair value is currently used in IFRSs to describe different measurement bases with different measurement objectives: "market" exit value, entry value, net present value etc. It is therefore important that the framework defines in which circumstances each measurement base is applicable.

1.4.We agree that a term should always be used with the same meaning in IFRSs.

1.5.However, the DP appears to asking whether "fair value" should always mean exit value as defined in SFAS 157. This would mean changing the measurement bases where "fair value" is used in a different sense today. This would pre-empt the measurement debate taking place in the framework project. Moreover, the DP gives no indication of what the impact of such a change would be.

1.6.In conclusion, we do not support:

-fair value guidance being given in a single standard

-replacing the current definitions of fair value in existing IFRSs by the market-based exit price

Q2 Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.

CNC's Comments

2.1. We refer to our answer in 1.3 above, which indicates that the framework should define when "market" exit value per SFAS 157 should apply.

2.2. We prefer guidance in current IFRSs in so far as it is by type of asset and liability.

2.3. Where no liquid market exists we believe that an entity-specific estimation of expected net cash flows, for example as in IAS 40 and 41, is appropriate.

ISSUE 2 Differences in the definition of fair value in SFAS 157 and in IFRSs

Q3 Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?

CNC's Comments

3.1.Measurement at market-based exit price implies a view of performance which should be validated by a separate prior debate.

3.2.A market-based exit price would not appear relevant where:

- there is no liquid market
- and
- the asset/liability is not held for sale/transfer under the entity's business model

3.3.On initial recognition only the transaction price ("entry price") would be relevant where there is no liquid exit market and the assets /liabilities are managed on the basis of the expected cash flows generated in the course of business rather than on a fair value basis.

Q4 Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.

CNC's Comments

4.1.By definition, entry price reflects the expectations of flows of economic benefits into the entity from the point of view of the purchaser. For any given transaction the entry price of the purchaser will be identical to the exit price of the seller.

4.2.However, most markets are not totally liquid and there will be more than one market price. It is therefore not possible to say that entry and exit prices, even on the same market, will be identical at the same point in time.

Q5 Would it be advisable to eliminate the term 'fair value' and replace it with terms, such as 'current exit price' or 'current entry price', that more closely reflect the measurement objective for each situation? Please provide a basis for your views.

CNC's Comments

5.1.As stated above in our answers to Q1, Q3and Q4 the term "fair value" is currently used to refer to different measurement bases and objectives. Its' use is, therefore, confusing.

5.2.It would therefore be appropriate to adopt terms such as "current exit price" or "current entry price", provided these terms are properly defined, where each of these terms would reflect better the measurement objective relevant to each situation.

Q6 Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.

CNC's Comments

6.1. The fair value measurements applied in IFRS in practice are often different to the market-based exit price measurement objectives set out in SFAS 157:

-IAS 39: Transaction ("entry") price on initial recognition except for financial trading activities, which are measured at exit price, based on observable market data.

-IFRS 3: different according to the type of asset and liability, the current market price is only applicable where a liquid market actually exists otherwise "present value" or other estimations applied.

Q7 Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?

CNC's Comments

7.1. The market participant view is valid when a liquid market exists.

7.2.However, in the many cases where no liquid market exists, SFAS 157 states that the view of a participant in a "hypothetical" market should be adopted. SFAS 157 also states that the entity's intentions or ability to sell the asset or transfer the liability are not relevant.

7.3.We do not agree that a measurement objective, which ignores an entity's business model, is relevant to a user of financial reporting. Where no observable market data exists we believe that the only possible solution is to use the entity's own estimations.

Q8 Do you agree that the market participant view in SFAS 157 is consistent with the concepts of 'knowledgeable, willing parties' and 'arm's length transaction' as defined in IFRSs? If not, how do you believe they differ?

CNC's Comments

8.1. The arm's length transaction, according to §44 of the DP, is "presumed to be between unrelated parties" but leaves some doubt as to whether a related party transaction at normal market conditions might still be considered as fair value. SFAS 157 specifically excludes the possibility of related party transactions. In this respect we prefer the existing definition.

Q9 Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?

CNC's Comments

9.1.We disagree with the principle of applying transfer value on the following grounds:

- the transfer price will include the transferee's evaluation of risks and profit margin which may lead to the liability being over-valued
- the existence of a market ,and therefore a market value , for such transfers is the exception rather than the rule
- where the transfer of liabilities does not correspond to the entity's business model

- where the entity normally would settle the liability in the course of business a "settlement value" will better reflect the entity's expected cash outflows

Q10 Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?

CNC's Comments

10.1.To our knowledge, liabilities are generally measured using a settlement value objective.

ISSUE 3 Transaction price and fair value at initial recognition

Q11 In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.

CNC's Comments

11.1. Q11 raises explicitly or implicitly the following issues:

- does a measurement that includes non observable inputs qualify as fair value?(see 11.2)
- does such a measurement better reflect fair value than the transaction price on initial recognition ?(see11.2)
- if such a measurement were adopted on initial recognition , what principle is applicable to recognising gains and losses (so-called Day 1 gains and losses)?(see11.3)

11.2.The market exit price measurement objective is consistently opposed to entity-specific measurement in the DP. The market price is supposedly preferable to entity specific measurement, because the latter is considered to be more subjective. However, where there are no observable market inputs, it may be argued that the transaction price is the only observable price reference. Where the transaction takes place at arm's length between knowledgeable, willing parties it satisfies the definition of fair value and is generally assumed to be at market value unless there is evidence to the contrary.

11.3.Under IAS 39 the recognition of Day 1 gains and losses is only permitted for measurement using observable market data .The case for recognising Day 1 gains and losses using unobservable market data has not been made convincingly in the DP.

11.4.There is currently considerable divergence in the way Day 1 gains or losses are recognised in practice (immediately, linear recognition etc.) We recommend that the IASB defines clearly the recognition principles for Day 1 gains and losses as well as the recognition principles for subsequent measurement by reference to the different business models.

Q12 Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.

CNC's Comments

12.1.The unit of account guidance is neither clear in IAS 39 nor in SFAS 157.We therefore find it difficult to interpret the standards as required by the question.

12.2.Current practice is to measure on the basis of portfolios of identifiable risks rather than on an in exchange exit price for individual instruments.

Issue 4. Principal (or most advantageous) market

Q13 Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?

CNC's Comments

13.1.As stated in our answer to Q.7. the scarcity of liquid markets limits the applicability .of the notions of principal or most advantageous markets.

13.2.In our view fair value measurement should be based on the market where the entity actually buys or sells its products .We therefore support the notion of the "market expected to be used" as set out in IAS 41.

13.3.It is not clear how the notion of "principal (or most advantageous) market" applies to groups. What is the correlation between the notion of market and the reporting entity?

Issue 5. Attributes specific to the asset or liability

Q14 Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?

CNC's Comments

14.1.We agree that it is logical, for fair value measurement, to take into account attributes specific to the asset or liability which market participants would have considered.

14.2. However, in practice, where there is no liquid market it might be difficult to determine the attributes that would be considered by hypothetical market participants .In this case, we question whether a "hypothetical market participant " approach would necessarily be more relevant or reliable than an entity specific approach.

Q15 Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?

CNC's Comments

15.1.Where the transaction price is used to measure fair value, for example on initial acquisition, it would seem consistent to include the related transaction costs in the measurement base. This approach is coherent with IAS 39 §43 relative to assets and liabilities not at fair value through profit or loss and IFRS 3 §24.

15.2.Such transaction costs may well be unavoidable for all market participants and necessary in order to obtain the economic benefits from an asset.

15.3.Where the exit model is used it would seem appropriate to exclude the transaction costs from the measurement base and recognise them directly in the income statement .It is because the measurement base refers to a (hypothetical) sales transaction that the related costs would be assimilated to selling costs and dealt with through the income statement.

Issue 6. Valuation of liabilities

Q16 Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?

CNC’s Comments

16.1 The question deals with the inclusion of the risk of non-performance ***including*** credit risk in the measurement of an entity’s liabilities .It is not clear which other non performance risks fall within the scope of this question. However, the following comments concern only an entity’s own credit risk. We disagree with the inclusion of an entity’s own credit risk in measuring its liabilities as set out below.

16.2.We doubt the usefulness of the information and note that it is general practice for financial analysts to eliminate it in their analysis of financial statements.

16.3.The inclusion of an entity’s own credit risk is contrary to the going concern principle .An entity’s has, by definition, no discretion with respect to the payment of its liabilities.

16.4.We refer to the answer to Q.9 in which we recommend the use of settlement value as the most probable outcome for the business model in most cases where a liquid market for the liability does not exist .The recognition of an entity’s own credit risk is not consistent with the probable settlement value.

16.5.The recognition of an entity’s own credit risk fluctuations has perverse and paradoxical effects e.g. a drop in an entity’s credit rating would give rise to immediate profits .The less solvent an entity is, the more profit it would disclose. Under this approach, liabilities no longer measure the amount of an entity’s obligations but the “market’s estimate” of what it might be able to pay.

Issue 7. ‘In-use valuation premise’ versus ‘value in use’

Q17 Is it clear that the ‘in-use valuation premise’ used to measure the fair value of an asset in SFAS 157 is different from ‘value in use’ in IAS 36? Why or why not?

CNC’s Comments

17.1.It is clear that the “in-use valuation premise” is different to “value in use”:

- in use valuation is intended to represent a market exit value for the asset/liability when combined with other assets/liabilities i.e. cash flows from a hypothetical ***sale on the market***
- “value in use” is an entity-specific measurement based on the cash flows estimated by the entity from ***use in its business***

17.2.We are in favour of maintaining measurement on the basis of value in use as illustrated by IAS 36 when this corresponds to an entity’s business model and there is no liquid market for determining an exit value.

Issue 8. Fair value hierarchy

Q18 Do you agree with the hierarchy in SFAS 157? If not, why?

CNC's Comments

18.1.We accept the principle of the fair value hierarchy to prioritise the inputs .It provides guidance when there are no directly observable quoted market prices for identical assets or liabilities.

18.2.However, level 3 of the hierarchy concerns unobservable inputs "which reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability". Level 3 therefore contains a significant dose of entity-specific assumptions and we may justifiably ask whether it can be considered as a market value. Does level 3 belong to the fair value measurement family or another entity-specific one?

Q19 Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?

CNC's Comments

19.1.The distinction between the three levels of the hierarchy appears clear in theory although the three levels would need to be tested in practice.

Issue 9. Large positions of a single financial instrument (blocks)

Q20 Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.

CNC's Comments

20.1.Blockage adjustments are designed to reflect the impact of the insufficient liquidity of markets when measuring large blocks of financial instruments. Where the size of the holding is superior to the capacity of the market, we believe that a blockage adjustment faithfully represents the market situation .We therefore disagree with the position expressed in the DP that blocks should be measured as a multiple of the individual financial instruments.

Issue 10. Measuring fair value within the bid-ask spread

Q21 Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.

CNC's Comments

21.1 We agree that fair value measurements should be determined using the price within the bid ask spread that is most representative of fair value in the circumstances. This is because we believe that this view is the most representative of an entity's cash flows.

Q22 Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid-ask spread might be more representative of fair value? Why or why not?

CNC's Comments

22.1. In view of our reply to Q21 above, we would disagree with the compulsory use of a pricing convention.

Q23 Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?

CNC's Comments

23.1 We consider that bid-ask pricing guidance should apply to all levels of the hierarchy. on grounds of consistency .

Issue 11. Disclosures

Q24 Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.

CNC's Comments

24.1.In order to answer this question it would be necessary to make a full comparison of the disclosure requirements of IFRSs with those of SFAS 157.This has not been done in the DP.

We recommend that, before issuing the Exposure Draft, a review of the coherence of the combined fair value disclosure requirements should be carried out.

24.2.With respect to level 3 disclosures on financial instruments we recommend that they should be consistent with the requirements of IFRS 7.

Issue 12. Application guidance

Questions for respondents

Q25 Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions, as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why.

Q26 Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts).

CNC’s Comments on Q25 and Q26

25.1.We consider that application guidance in the DP is insufficient for cases where there is no liquid market.

Issue 13. Other matters

Q27 Please provide comments on any other matters raised by the discussion paper.

CNC’s Comments

We would like to take this opportunity to express our interest in taking part in the round-table meetings to be held in conjunction with the preparation of the exposure draft, as proposed in §3 of the “Invitation to Comment”.