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LETTER OF COMMENT NO. 40

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Accounting and reporting matters related to the global financial crisis

Dear Mr. Van Eperen:

UBS appreciates the opportunity to provide feedback to the Financial Crisis Advisory Group's Request for Input (RFI). The global financial crisis provides an important opportunity to strengthen a host of standards and regulations of all types: accounting, financial reporting, risk reporting and regulatory capital. We believe that the FCAG is fulfilling a critical role in advising the IASB and the FASB on the standard-setting implications of the global financial crisis and consequential changes in the regulatory environment.

We have responded to the detailed questions presented in the RFI and those responses are attached in the appendix to this letter. One of our key messages is that the global financial crisis has revealed once again the many pitfalls associated with the unlevel playing field created by different sets of accounting standards. There are important differences between IFRS and US GAAP that only can be remedied by the issuance of joint standards that use the same principles, the same words, the same examples and the same due process. For example, there should be joint standards on consolidation, derecognition and the entire financial accounting and reporting model for financial instruments. We greatly encourage the FCAG to reinforce that view among standard-setters, securities regulators, prudential supervisors and other capital market participants.

The global financial crisis also has placed a significant amount of pressure on the IASB and the FASB to promulgate new standards or change existing standards. We believe that the standards setters have been responsive. However, high-quality accounting standards result from deliberate debate and robust due process. Quality should not be sacrificed on the altar of speed. Any proposed accounting guidance must be the subject of due process, which would by necessity include a public comment period. We also note that the independence of standard setters from the ebbs and flows of political tides is imperative to the production of high-quality accounting standards. We strongly encourage the FCAG to recognize the importance of robust due process and independence as the cornerstones of high quality accounting standards.

In closing, we thank the FCAG for providing us the opportunity to provide it with our feedback. If you have any questions on our views or wish to discuss them further, we would gladly make ourselves available. Please contact Ralph Odermatt at +41 or Mike Tovey at +1(203) 719-8164 should you wish to do so.
Regards

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Appendix

Question 1

From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

General purpose financial reporting has helped investors and analysts understand risk concentrations. We believe that such information has been critical in properly assessing the economic condition of those reporting entities disclosing such information. We believe that IFRS 7's principles-based approach that requires entities to provide information through the eyes of management has provided useful information to understand the impacts of financial instruments on entities' financial positions and operating results. Additionally, management's discussion and analysis (MD&A) has been extremely important for understanding liquidity and funding risks.

In the marketplace, there are views suggesting that financial statements do not provide enough transparency. We support efforts to improve financial reporting; however, we believe that some have confused transparency with the ability to predict a future outcome. Transparent financial reporting permits a user to understand an entity's financial position at a particular point in time and financial performance over a particular period. While transparent financial reporting can provide information that can help an investor to better understand how an entity may perform financially in the future, it cannot predict that future financial performance.

We believe that a cohesive financial reporting model should be developed that includes MD&A, risk reporting and financial reporting. We believe that a comprehensive, cohesive approach is needed to improve how information is presented to investors.

Question 2

If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

We believe that regulatory reporting objectives differ from financial reporting objectives; therefore, we would prefer that such differences be disclosed only in a discussion of differences between the two types of reporting frameworks. We believe that investors currently understand the differences between those two frameworks and therefore a disclosure would be most appropriate. That disclosure could describe the methodology employed to calculate the regulatory provisions and the impact on regulatory capital. We believe that such disclosure would promote transparency and understandability. We believe that the use of other mechanisms described in Question 2 to reflect a difference between financial and regulatory reporting could confuse investors about the objective of financial reporting and therefore we do not support them.

Question 3

Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

We do not believe that either off-balance sheet items or fair value accounting can be blamed for the global financial crisis. Accounting is a reflection of economic transactions. As such, we believe that it has contributed to investors' and analysts' understanding of the scope and magnitude of the global financial crisis. While we acknowledge that current accounting models for the consolidation of structured entities can be improved (for example, US GAAP's consolidation exception for QSPEs), we do not believe that such models were so fundamentally flawed as to not appropriately reflect an entity's economic position with respect to such structured entities. We note that most losses stemming from the financial crisis relate to assets or liabilities that were appropriately reflected on entities' balance sheets. We support improved disclosures regarding off-balance-sheet entities. However, the most important thing that can be done is to create a single, converged consolidation accounting and reporting model that uses the same exact words for both IFRS and US GAAP. Global capital market participants need a level playing field when it comes to consolidation. Investors and analysts need assurance that all entities are accounting appropriately for their relationships with structured entities regardless of whether those entities use IFRS or US GAAP.

Question 4

Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

We agree that the accounting for financial instruments is overly complex and that a number of actions can be taken to simplify the accounting. We do not believe that the sole use of fair value for all financial instruments is appropriate because it does not consider different business models, risk activities and the financial transactions themselves.

We support as an end goal a financial instrument accounting model based on mixed attributes. At a minimum, this mixed attribute model would include fair value (i.e., held for trading and fair value option categories) and the creation of a single amortized cost measurement classification. We believe that all financial instruments should be initially measured at fair value and subsequently measured at amortized cost with the exception of financial instruments measured on a fair value basis.

Fair value accounting must be supported by clear and comprehensive fair value measurement guidance. Such guidance is under development by the IASB and is the subject of improvement efforts by the FASB. We reiterate our previous message regarding joint standards: global capital markets need a single fair value measurement standard. The world cannot afford an unlevel playing field with regard to fair value measurement standards.

We also believe that certain simplifications could be made in the area of the fair value option and hedge accounting. We would be glad to elaborate on these points at your request.

Question 5

What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

Under no circumstance should accounting standards be promulgated in final form without providing constituents with the opportunity to provide comments thereon. Public comment periods to consider draft accounting standards are a requisite for high quality accounting standards. While we understand the types of pressures that may be imposed on accounting standard setters, we would not support a trade-off between speed and quality. Any procedure designed to address emergency issues must require a public comment period. The length of the public comment period must be sufficient for interested constituents to fully consider the implications of the draft accounting standard.

Question 6

Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organisations? If so, which issues and why, and which organisations?

In general, we believe that the IASB and the FASB have acted prudently in addressing financial reporting and accounting issues raised by the global financial crisis. However, as noted above, we do believe that the IASB and the FASB must work more closely to produce standards that are exactly the same. We believe that the financial crisis has once again revealed the dangers of an unlevel playing field. We believe that global capital markets need one set of high quality global accounting standards. That can be achieved only by the issuance of joint standards based on the same principles, the same words, the same examples and the same due process.

Question 7

Is there any other input that you'd like to convey to the FCAG?

We fully support the FCAG's conclusion that accounting standards should not be blamed for the financial crisis. We support the FCAG in its efforts to provide input to the IASB and the FASB on how financial reporting and accounting standards can be improved.

We encourage the FCAG to fully and openly support the independence of the IASB and the FASB. We believe that the financial crisis has imposed a tremendous amount of pressure on both the IASB and the FASB. Independent standard setters are best able to produce high quality accounting standards that provide the information investors need to make economic resource allocation decisions.