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UBS AG Comment Letter No. 76
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Group Accounting Policy and Valuation

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Financial Accounting Standards Board
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Proposed Accounting Standards Update to Topic 820 – *Improving Disclosures about Fair Value Measurements*

Dear Mr. Golden:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU) Fair Value Measurements and Disclosures (Topic 820) – *Improving Disclosures about Fair Value Measurements*. UBS is a global financial institution that applies International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as its basis for financial reporting. We also have US subsidiaries that apply US generally accepted accounting principles (GAAP) to satisfy stand-alone financial reporting requirements.

We recognize the need to improve US GAAP disclosure requirements related to fair value measurements. However, as a filer under IFRS, we would emphasize the need to align such improvements with IFRS in order to eliminate the differences between IFRS and US GAAP. The FASB and the IASB have made a commitment to coordinate the issuance of fully compatible financial reporting standards under their Memorandum of Understanding, "The Norwalk Agreement" in 2002. We recommend that the FASB honor that commitment by issuing an identical standard to the IASB's amended IFRS 7, *Financial Instruments: Disclosures* on improving fair value measurement disclosures in order to ensure that compatibility among both sets of standards is maintained.

There are several notable differences between this proposed ASU and the disclosure requirements under the amended IFRS 7 namely, (a) the requirement to provide additional quantitative information about significant unobservable inputs related to the sensitivity disclosure; (b) the requirement to disaggregate fair value measurement disclosures for assets and liabilities at a more granular level than the balance sheet line item; (c) the requirement to adhere to the proposed disclosure provisions on both an interim and annual reporting basis, and (d) the requirement to adhere to a potential effective date of, at most, four months from the issuance of the proposed ASU. If the FASB believes that these additional disclosure requirements are necessary, we recommend that the FASB reconvene with the IASB to deliberate these provisions together and determine whether to include them in further amendments to both standards.

Our responses to the specific questions on the proposed ASU raised by the FASB staff are included in the appendix attached to this letter.

Once again, we appreciate the opportunity to participate in the FASB's due process. If you have any questions regarding our comments, please call John Gallagher at (203) 719-4212 or Mike Tovey at (203) 719-8164.

Kind Regards,

UBS AG

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Appendix

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from:

- 1. Financial statement preparers about their operationality and costs.**
- 2. IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7.**
- 3. Financial statement users about their usefulness—more specifically, a discussion of how they would benefit from, and use, such disclosures.**

We recommend that the FASB issue an identical standard to the amended IFRS 7 on improving fair value measurement disclosures thereby eliminating the differences between this proposed ASU and IFRS 7, including the requirement to disclose quantitative information about significant unobservable inputs used for each class of Level 3 fair value measurement as part of the sensitivity disclosure.

At the consolidated group level, UBS is required to provide a sensitivity disclosure under the amended IFRS 7 beginning in our 2009 annual report (to be issued in 2010). UBS has on an interim and annual basis presented a sensitivity analysis for certain Level 3 instruments within its consolidated financial statements by estimating the potential fair value effect through either a “shock” analysis related to certain significant unobservable inputs or by incorporating reasonably possible alternative input within its model-based valuations.

However, the proposed ASU would require US filers to compile *additional* information related to the sensitivity analysis that is not required under IFRS 7. The sensitivity analysis that is prescribed under the proposed ASU (see paragraph 820-10-50-2(f)) requires a reporting entity to disclose not only the effects of reasonably possible inputs on fair value, but quantitative information about the significant inputs used and reasonably possible alternative inputs for each class of Level 3 fair value measurement. This essentially requires a reporting entity to provide a weighted-average of each key significant input for a Level 3 fair value measurement class along with a range around the input.

Apart from the operational burden of disclosing a reasonable range by class, we believe that, even for a particular class of Level 3 instrument, the differences in geographic concentrations, collateral requirements, payoff characteristics and portfolio compositions is so vast that comparing quantitative inputs (setting aside the full sensitivity analysis) across similar reporting entities would produce meaningless information for a user. Furthermore, we believe that the concept of a “reasonably possible change in inputs” is an arbitrary notion at best and undermines the quality of fair value measurement. It is also important to note that a Level 3 fair value measurement should, in fact, reflect the best estimate of all possible outcomes. Placing undue emphasis on any sensitivity analysis, particularly by requiring a range around significant unobservable inputs, may detract from the credibility of the reported fair value.

Issue 2: With respect to the reconciliation (sometimes referred to as a rollforward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

We recommend that the FASB issue an identical standard to the amended IFRS 7 on improving fair value measurement disclosures thereby allowing a reporting entity the discretion to determine an appropriate level of disaggregation related to all fair value measurement disclosures that would be meaningful to its users, including the Level 3 rollforward.

The proposed guidance in paragraph 820-10-50-2A would *require* a US filer to provide the reconciliation at a much more granular level than is required under the amended IFRS 7. For example, where a reporting entity would be compliant under IFRS 7 by disclosing a rollforward of trading portfolio assets and liabilities, the proposed ASU would *require* that the rollforward be disaggregated within the trading portfolio further between, for example, RMBS, CMBS, and CDOs. This level of granularity would require our US subsidiaries to capture cash activity at the instrument level and would, therefore, require further resources and greater effort in reconciling cash management systems with valuation reporting systems that capture profit and loss information at a more aggregated level. The unintended result *may* be that, in order to comply with the requirement by the proposed effective date, a reporting entity would be compelled to develop a *workaround* that estimates purchases and sales for each class of Level 3 instruments, which may be less reliable than the aggregated figure.

Question 3: Is the proposed effective date operational? In particular:

- 1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurement for interim reporting periods ending after March 15, 2010?**

Again, we recommend that the FASB issue an identical standard to the amended IFRS 7 on improving fair value measurement disclosures.

Unlike IFRS filers, US GAAP filers would be *required* to provide these enhanced disclosures on an interim basis, which adds an additional burden on limited reporting resources and represents another significant difference between IFRS and US GAAP disclosure requirements. Many US filers must already dedicate a significant amount of resources toward compliance with Statement of Financial Accounting Standards No. 166 and 167 by January 2010. Therefore, we recommend that, if the proposed ASU is issued, it be effective for annual periods only.