The World Bank

October 9, 2009

Technical Director
File Reference No. 1710-100
FASB, 401 Merritt 7,
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Dear Sir/Madam,

FASB Invitation to Comment on the Proposed Accounting Standards Update Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements

The World Bank appreciates the opportunity to comment on the proposed Accounting Standards Update. We support the Board's view on the need to enhance the existing disclosures but would have preferred a more holistic approach, in the context of the overall financial instruments project, over the continued piece-meal approach of layering multiple amendments onto the existing standard. We also note and support that this proposal reduces the divergence between U.S. GAAP and IFRS.

We generally concur with the Board's proposal to require additional disclosures about Level 3 instruments, but are concerned about the operationality or cost of certain aspects of the proposal. We agree that if changing one or more of the significant unobservable inputs to reasonably possible alternative inputs would increase or decrease the fair value significantly, this should be disclosed and the effects quantified. Additionally, we believe that the choice of valuation models can be equally as significant as the choice of inputs, and therefore, additional disclosures for Level 3 instruments should be required when reasonably possible alternative modeling choices would increase or decrease the fair value significantly (for example, where matrix pricing is used instead of expected present value approach).

In addition, financial reporting for financial instruments could be significantly enhanced through a portfolio approach to disclosure. All disclosures should be aggregated by portfolios of financial instruments. These portfolios should be determined by how the institution manages itself. Further, disclosures about the sensitivity of financial instrument portfolios to market and credit risks should be required. As part of this, the financial statement preparers should disclose significant valuation drivers for all three levels of financial instruments, regardless of whether the inputs are observable or not. Such disclosures will help the readers understand the potential volatility in the reported

income, capital and long-term risk-capacity of the reporting entity. Such disclosures could be similar to those required by paragraphs 40 – 42 of IFRS 7, *Financial Instruments: Disclosures*. While we note that IFRS 7 requires these disclosures for all financial instruments, at a minimum they should be required for financial instruments measured at fair value on a recurring basis. Finally, these sensitivity disclosures should be made as part of the financial statements as opposed to including them in the MD&A

As a final improvement to the proposal, we would suggest that all transfers into and out of Levels 1 and 2 be disclosed, rather than only a subset, i.e. those deemed "significant." We believe this will provide more complete information, enhance comparability, and make full use of the data capture efforts that would be necessary to even provide only those transfers deemed "significant." A qualitative discussion could address the "significance" of those transfers.

Our responses to the specific questions in the proposed Accounting Standards Update are as follows:

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*

Aspects of this requirement are not operationally feasible for complex financial instruments at a reasonable cost. In particular, we do not believe that the proposal to consider correlations when there is more than one reasonably possible alternative input is pragmatic (BC12) and should not be explicitly required. We recommend that a statement be made, along the lines of IFRS 7, BC 38 clarifying that a "detailed quantitative disclosure of sensitivity to all assumptions is **not required** (only those that could result in a significantly different estimate of fair value are required) and that the disclosure does not require the entity to reflect interdependencies between assumptions when making the disclosure."

In addition to the enormous first time set-up costs, the ongoing technology and annual maintenance costs is estimated at $1 million for a relatively complex portfolio of approximately $10+ billion.

3. *Financial statements users about their usefulness—more specifically, a discussion of how they would benefit from, and use, such disclosures.*

The additional information value associated with the proposed enhanced disclosures for Level 3 instruments will be useful to the users, given the application of significant unobservable inputs in their valuation. However, as noted above, additional disclosure of market and credit risk sensitivity for all financial instrument portfolios will be more useful to the reader. These portfolios should be determined by how the institution

manages itself. This would ensure the users get a more holistic view on the reporting entity's sensitivity to valuation inputs.

Issue 2: *With respect to the reconciliation (sometimes referred to as a roll forward) 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?*

The proposal on Level 3 roll forward requiring separate disclosure of purchases, sales, issuances and settlements is operational.

Issue 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 measurements for interim reporting periods ending after March 15, 2010?*

Given the level of initial investment, including infrastructure, systems, and time effort, it is estimated that it will require a minimum of one full year from the final ASU issue date to implement a framework that will comply with the proposed ASU requirement on Level 3 sensitivity analysis.

2. *Are there reasons why the Board should provide a different effective date for nonpublic entities?*

The possible low degree of operational readiness by the nonpublic entities may warrant a delay in the effectiveness date of the proposed Accounting Standards Update.

Thank you for the opportunity to comment on your draft proposals.

Sincerely

Charles McDonough
Acting Vice President and Controller
The World Bank