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IASB & FASB
Comments on ES/2010/7
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OUR COMMENTS ON ES/2010/7

The principal question : *are the not-observable entries to be taken into account and to in the case of communicate in information with the thirds in an obligatory way the absence of an active market said level 3?*

The taking into account of these elements in their effects of correlation on the assets, the passive ones and the stockholders' equity of the assessment with a supply of relevant information is thus posed by the IASB and the FASB.

Nevertheless so that the question is complete and that the answer brings the useful clarifications, it seems necessary to us to replace the question in its real context.

Known as differently, this principal question comprises several difficulties on which the proposal of the FASB brings a welcome complement to the orientations of the IASB:

1-A side one raises the question to make compulsory or not this taking into account of effects but on an other side the action of management of the entity then necessarily implied is purely and simply unobtrusive in proposal IASB. This appears incongruous or incoherent while at the same time the IASB by the IFRS 8 chose "the approach management" - dynamic - being distinguished from "the countable approach" - static - assessment.

2-This question of analysis of uncertainty through this action of the management of the producing entity of a margin of variation to frame here is by no means replaced in the "process" of the strategy of the management of the entity compared to its potential markets aimed in globalization. Cf. proposal FASB p.21

3-He does not say "when", i.e. to which date or temporal horizon this appreciation would relate since categorization on level 3 cannot relate to the current market running on date t which by definition "is gone non-existent". Cf. proposal FASB p.3 and 4. Thus "economic time" disappeared. Time would stop at the moment t of the moment when the evaluation is achieved. The "prospective" attitude of the conceptual framework Framework of 1989 of the IFRS was occulted.

4-It considers the reporting for the users of the financial statements and initially the investors. Cf. proposal IASB background p.4. But precisely what interests these investors it is not what succeeds now in t but what will make a success of in the future $t+1$ even $t+n$. It is thus the pledge of the success in the future in as long as information to be produced which interests these investors. It is that which deserves more "to be posed", "to be exteriorized" and "to be determined", framing uncertainty - inherent and never cancelling - risk of company and consequent risk of the investor.

The analysis of the calls to comments, as well of the board of the IASB as of the board of the FASB shows a preference for under-question 3.

Under-questions 1 and 2 are nevertheless of an interest to include/understand the alternative solution suggested.

Under-question 1: *Which are correlations of effects of not-observable entries the circumstances where this taking into account would be not-operational when it does not have there an active market on level 3?*

As indicates it the proposal of the FASB p.20 and p.21, in the majority of the cases this taking into account is not operational for the double reason that on the one hand it is the totality of the wallet of assets attached to the principal potential market which is in question in a diffuse way and that in addition the evaluation in fair value of each individual component asset on date t cannot give as summon total of the parts of the assessment the total position in fair financial value of the entity undertaken which results from this. It here is reached not cut (gap) between assessment PACIOLI (except IFRS) and assessment IFRS. In other words "countable approach" and "the approach management" of the financial value is separate here. Cf. ES to fair value measurement may 2009 p.44 C3; D16 p.54 and §11 p.55

One can nevertheless already locate three exceptional circumstances where this taking into account on the level it assessment arrives at being operational.

First exception. The difference between the fair value of assets and passive individual and the fair total value of the entity can represent a new asset in globalization inserted in assessment IFRS. It is about the asset which we name M1 of "revision of the logic of the entity", i.e. of "revision of beliefs on the assets of the entity undertaken".

This asset appears well-known under multiple denominations in a world where "there are not any more comparative advantages and of timing durable", where the value is in permanent car-movement and where there are emergences of a saving in innovations. There exists in this world competing world only finished relative stabilities on which it is impossible to be fixed or to be fixed indefinitely in time.

The characteristic of the manager general of the entity - even more in globalization - is precisely her capacity "to be detached of what succeeds in these t". *The maximum danger being precisely the success today making forget that the investor relies on the success of tomorrow of which he wants to have some pledge and who only interests it. What is required is not an image of t but of t+1 given in t.* Cf. items 11, 15 to 19, 28 of Framework 1989 of the IASC.

This exceptional circumstance appears when it "system of revision of beliefs" can be detached from the entity, is operational and saleable on the world market, i.e. became a asset instead of being only one "load", a "potential asset" or a "possible quasi-asset" not having reached yet the reliability of a true asset.

Second exception. If the team "manager general - manager accountant - controller within/internal auditor" checks the definition of a asset autonomous M2 of management of the entity according to a "synergy strategy-solidarity" of actors, we find ourselves in the exceptional circumstance where this asset can fill the difference between individual assets in fair value and the total position in fair value of the entity aimed on the money market.

Third exception. In an affected world by crises, "the collective intelligence", "the economic intelligence" representatives of the human capital of the entity, its reactivity, its proactivity, its creativity can constitute "a core of professionals committed and interdependent" checking the definition of a asset. It is another exceptional circumstance where this asset M3 of man-key-resources within the meaning of "processors" will fill the difference between the sum of the parts of individual assets in fair value and the total position in fair value of the entity undertaken.

This list of the exceptions is certainly not exhaustive but it is enough to render comprehensible that one cannot build a general obligation of taking into account of inobservable affecting the assessment on these exceptional circumstances. general conditions of incorporation of a asset IFRS are enough.

Under-question 2. *If the taking into account of unobservable correlations of effects is not-obligatory, which interest presents the analysis of uncertainty?*

The analysis of the uncertainty of the fair value as measures given on level 3 implicitly leans with the consideration of a loss of legitimacy of this evaluation of to fair value on this level 3. In other words, *if there is no current active market the principal justification of the fair value would be supposed to be immediately destroyed.* The absence of "skew" (bias) i.e. by a price of exchange sanctioned in an objective way by the market would see itself then replaced by the again recovered freedom of a passage dreaded to pure subjectivity, including with the moral risk of the management of the financial value of the entity. Cf. point 36 of Framework 1989 of the IASC.

Let us observe already that in the world-wide crisis which has occurred in 2008-2009, the fair value of the assets was taken as *immediate counterpart* the passive ones of the entity what reproduces exactly the diagram of accountancy

PACIOLI and *who leaves assets IFRS under control to potentials having to spread itself*. However, until proof of the opposite, the financial value of an entity on a money market relates on a dynamics of result of its capital and consequently to the hope that y put the investors not for the present but for the future. The latter consider a priori not the capital of a company like one passed continued or an inert thing in translation but like reality of a process to be deployed creation of non existing values before on which the return of their investment is based. The investors do not buy goods to be consumed immediately but a generating capital of companies of profit to come.

It seems y well here to have had a misunderstanding and which one wrongfully charged to the IFRS: "evaluation to fair value certainty-risk moving of it" what concerns the PACIOLI: "evaluation in historical cost of counterpart debtor-creditors according to a blocking over the moment in fixity". In any event, even at exit of this consumed confusion of the reference frames old and new of the choice of the investors and especially of the preparers of the financial statements, the danger persists of a return of subjectivity to level 3. It would have thus urgency with to try to frame under these conditions "the judgement" of this management to give again objectivity to him "as far as possible" that it would have thus lost and kind to make safe it "as much as making may be" the choice of the investors.

Therefore, the context general would concern this wide dispute of the fair value in the world of continental Europe, in particular in France, with the fears accentuated to have on level 3. The specific context could then be analyzed like an attempt at reaction of the IASB and being questioned FASB, calling with contributions and testing the opinions about an acceptable solution to find " *how to secure dangers of level 3?* » with knowing against subjectivity and the moral risk of financial management of the companies. Cf. §36Framework 1989 of the IASC.

In the natural work of these two standardizing organizations, the solution of replacement should also satisfy the two traditional normative constraints. Cf. Proposal IASB p.4 (background). The first which a standard does not replace the mobilization of the human actor in situation (the principle and not rule of the IFRS). The second that with the same situation all "manager accountant" makes grosso modo the same evaluation according to a tolerance announced accepted variations (uniformity of application by the same discovery (heuristic) method or same habitus/capability/skill of the ASU i.e. American standards of the GAAP).

In fact, behind this required improvement of information to be produced, relevant and acceptable, this projection of the "project to fair value measurement" and of the improvement 2008 of the conceptual framework "phase measures", it acts to deal with subjacent problem real good but while seeking to solve it differently.

The proposal FASB, p. 12, p. 20 and 21, p. 23 and p.4 and 7 suggest the solution of replacement by pointing time in its datings, the strategy, the connection with the information of market, the evolutionary know-how of management in globalization. Proposal IASB p.4 and p.6 and BC21 p.18, it, puts the accent on the need for a unified theory of the fair value like preserving the free judgement

of the human actors in situation while providing common criteria of appreciation for the decisions to take by the users of the financial statements .

Under-question 3. Y- *does it have according to you other ways of giving to the users information on the analysis of uncertainty? Give a description of solutions and their reasons of economic justification.*

According to us, the ingredients of the puzzle allowing the synthesis already exist in complementary convergence IASB/FASB.

Criticism on the arbitrary one of subjectivity involving the loss of legitimacy of the measurement of the fair value on level 3 by an evaluation "without market" results according to us from a restrictive vision and especially truncated of the fair value. This design does not correspond to the corpus of the IASB and the current state of its development, in particular the conceptual framework old 1989 and improved 2008 supplemented by the project Fair Value Measurement of 2009.

The fair value concerns a "complete process" which returns to a "structure of tierceity". It is about a structure of movement in the three terms of which each one depends on both others to exist and where each term passes without delay in the two others.

This thesis can be highlighted by the conceptual analysis items 104 and 108 of Framework IASC of 1989 destroying the objection of moral risk or purely financial nominal.

Indeed, the value of the capital concerns " *a surplus with units of currency in purchasing power constant such as this capital is maintained and released a real profit* ». What means that population really reaches more effective goods. But if this population of a State reaches it (can adapt it in safety thanks to this quality of currency and with this "ethicity" of its right and its manners), that wants to say that a transaction was carried out, that it went there with information i.e. Exchange against payment. But if there were really surplus of goods i.e. profit and real pleasure for this population of these goods in addition to what it had front, that wants to also say that a Enterprise changed the value into revealing new emergent properties which did not exist front in the common economic activity .

Inference and syllogism of an effective contribution, such is the implication or the presupposition engaged by this posed. If you accept one you accept the two others bus *the fair value could not be dissociated from its complete process*. It proceeds of the "three E", State, Echange, Enterprise (in any order): of the State (guarantor of the appropriation of these goods and their substance), Exchange (place of manifestation of the transaction and choice of the companies through investors and products acquired), of the Enterprise (source of the change of value or creation of new goods and their use). Also the convertibility of the transaction value (current or potential), of the fiduciary value (of unquestionable treasury) and of the money value (with units of purchasing power constant) is in the project of Fair Value Measurement. Cf. C3 p.44 and §17 p.17.

The expeditious conclusion that on level 3 " *since there is no active market, there would be no possible evaluation carried out except subjectivity* " sees itself moreover more refuted by the simple existence of " *future markets* " (agreed firm price in t with $t+$) invented precisely to mitigate a radical defect of favorable market or a fall sensitive, erratic even catastrophic or systemic of such general or special economic activity involving a lifelessness or even the total disappearance of a market of company.

This fatal presumption, let us note it, would exclude any innovation *which starts without market running and has by definition to create it*. This belief of equation: " *not of active market courant = loss of neutrality* " is thus solved in the elimination necessary of the saving in innovations characteristic of the economy of today. Equivalence of an exit of the economy, i.e. car-refutation of these proposals advanced on the impossibility or the danger of an evaluation in fair value on level 3.

Even car-refutation by the existence of " *derived markets* " (price fixes anticipation of a transaction leaned at a market to come with freedom better moment $t+$ to exercise an option of transaction: variation of the subjacent market making the profit or the loss by report/ratio at the price of outcome of the contract of derived). The latter were also created to cancel this contradiction of "without favorable active market" according to a "effect of reversal" of the unfavourable variation (famous volatility).

This in two ways.

The first such as the purchaser gains if the current purchase price goes up and the salesman gains if the current selling price drops.

This is obviously contradictory with the common direction of a real and complete economic world which functions today also with "one to think of back". In other words, while making concretely coexist an "anti-market" with a "market", one converting itself into the other, which is certainly very against-intuitive.

The second such as the knowledge of the markets in the long term and the derived contracts makes safe the contractor because it delivers to him the sensitivity of tendency at least for a part assured the activity considered, to start with his committed. In the same way, if he knows through these forward contracts and derivative that "all are put at it", starting from this information he will tend to release himself some and does not continue in this same activity.

Let us observe the similarity of the contracts derived with the forecasts from meteorology with its models: the data of meteorology/the contracts derived do not make the war (here economic or commercial) but allow the operations of them and even can finance those partially. The example of the clubs of football set up in joint stock companies shows that the bets on the matches can themselves be used positively for the success of such company. What is worth also already for the other entities with dimensions. The speculation can thus have two faces. The indispensable condition returns in all the cases to hold together in an ordered way the "subjacent one" (here the club) and the derivatives (there sets of bets on the matches) which exist one by the other and disappear one with the other.

*These two markets invisible financial universalization - markets in the long term and gone of the derived ones - order then current markets visible and differed and answer of intervals of vacuums or unfavourable variations that the companies cannot envisage nor to only ensure. It is the field of appraise bankers and insurers and administrative financial establishments of financial credits. There is not to be astonished that the latter cultivate a resistance naturally to be informed on *this basket which makes their profit* through the life of the other firms, subjected to the desert of the current markets or the tumults of their variations.*

In addition, in which will make one believe that the contractor who creates an innovation does not make it according to a potential market? Its made up construction proceeds of the "objective indices" which it collected for service against payment of a solvent population with the certainty trustful in oneself of the contractor to impose his recognition by its only acts towards and against any appearance "by holding time necessary to that its project takes".

In this intercalated situation of incubation, of preparation, startup, the only thing which misses it is the current demonstration of this future market. This introduced dimension time of the datings and obliges to rectify the instantaneous design and blocked that one has evaluation in fair value of a transaction on a market.

What is in question thus carries on "*capability*" (*capability and skill*) to see at such moment a temporal extension "*considered*" in moment of this date *t*.

As the company engages its activity for the future on the funds of which the investor hopes, *it is always on a promise that the transaction is carried out : the purpose of the financial statements are to give at the moment t what will occur in t+1 and t+n in fair value.* A money market in *t* reflects what will make a success of tomorrow i.e. *t+1* and after tomorrow *t+1*, *t+2*, *t+n* (demarcation between respective objective or goal of the PACIOLI (out IFRS) and the IFRS or ASU). *This articulation of the t+1 to the centre of t* (Cf. project to fair value measurement C3 p.44) is carried out imperfectly because same of this "reflexion" which constituent preserves always an irreducible difference between the two terms.

This money market "learns" and with him all the professionals concerned progressively of the aforesaid the "reflexion" and thus "changes itself into its actors" and in the "tonality" (stimmung, attunement) that the latter create collectively. Because of this intrinsic evolutionarity, supplies of models but only "modeling it would not know *y* to have". Cf. point 110 of Framework 1989 of the IASC and celebrates its definition of "model" heard in this direction: « *For an operator O, an object M is a model of an object A insofar as O can use M to answer the questions which interest it about A* ».

Contrary to the dominant opinion a money market is concerned with means and long term and the fact of flashing back on the short-term one with correctly interpreting. Especially in a world which produces continuity, i.e. *durable* « *by connecting end to end* " the continuities limited to unceasingly replaced finished durations, i.e. connected discontinuities in an uninterrupted way is the

constitution of a "stability in the movement". It is obviously this very particular manner of "court-end/length-end" which interests the investors.

This projection "*when today it is tomorrow*" is based on the one hand on the confirmation of a preceding projection and in addition on the detection of the end of an economic activity and emergence of a new economic activity. This draws and distinguishes the companies and the investors and makes disappear those whose advertisements in t of $t+1$ are not confirmed in achievements with $t+1$ and those which cannot detect the success of the future.

Contrary also with the common opinion, finance shows first compared to the visible, material physical action of the contractor. It is the condition sine qua non because all starts with a reciprocal act of confidence between financier and contractor.

It is necessary then to observe that finance mobilizes the whole company so that it becomes itself contractor or producer. Distinctions "financing-exploitation" like that of "physical capital-financial-capital" lost their validity of absolute fixity today. This distinction "financier-production" became fluid, recursive and being worth only as aspect of predominance in limited contexts because each one of these aspects converts in the other. It is enough to include/understand it simply to think of the mobilization by advance of a bank card as for the financier who "mixes" today in confidence the whole of the even world national company.

Force is to also notice that the "Yield management", the management of the financial profitability or profit in generated units of treasury, mean simply the guard of human rationality: to make rather than not to make and make in such way rather than such other for the attack of a satisfaction-goal to start from a dissatisfaction-source, is the permanence of a really effective improvement.

Relative with the financier, the lived experiment of its new operating modes is checked already for all bus "whoever buys by advance a plane ticket or of train" becomes "*actor of a market of future*" and returns immediately in "*processual round of the tierceity of the fair value* », *whether it knows it or not does not do anything with the business*. Of course, this under the reserve of the normative convertibility of the three units of values: compromise, fiduciary and of currency to units of purchasing power constant for a population.

It appears as well as the financial innovations are spread already there, only their clear awakening and clear is carried out remotely. What shows that a true innovation presents a difficulty constitutive of recognition like such. Concerned with the unknown, to be made accept it must be always dissimulated under the known familiar one and be made known that after a time of accommodation of practices, initially largely unconscious.

On this basis of the "here is", the real problem subjacent with the interest of the analysis of uncertainty and information to produce to go towards more probable certainty can then to be defined with precision.

Stake relate to the major fact that “ ***the company changes permanently*** ” i.e. *such assets are replaced in the course of time but that **the essence of the transformation does not appear obviously with the assessment.*** Indeed, *the attributes of values are in permanent change during t past, t current, t+1, t+n of projection to the realization.* When the asset is active apparent with the assessment it is only for a time of projection which does not last. It only appears to be erased soon. Cf. point 87 of Framework IASC of 1989.

What means that what is “ *most important* ” - *this transformation as movement is not informed.* That they are the cause-acts or the effects measured according to the structures and the processes in progress. However in this field of occulted changes of new fittings, there exists what follows:

1°) There is a future landscape t+1 to conceive in t at the present. It is the 1st strategic loop $t+1 \rightarrow t$.

2°) It there with the installation or structures and processes which will make that this t+1 (when today it is tomorrow) by these actions in T will be the tangible pledge of this attack of realization effective in t+1. It is Sde strategic loop $t \rightarrow t+1$.

3°) There is acquisition of what will be carried out compromising and operationally in t+n. They is the Third strategic loop $t+1 \rightarrow t+n$ who is also $t+n \rightarrow t$.

4°) It there with the correction of projection former t ant slipping or proj t-1, proj t-2 between advertisements in t subscribed before and its realization in t with shift of the temporal indices according to the marker of the comparison by treasury between the made former advertisement and its effective realization in shifted. They is the fourth strategic loop $proj\ ant. \rightarrow t\ current$.

The “ *calibration* ” of value in numerical sizes, as recalled by proposal FASB p.19 and 20 and also the project Fair value measurement C3 p.44, will be done by these “ *documented structures and processes* ” who are not yet assets.

This unit constitutes *inputs objective level 3*, the famous ones *not-observable* with the assessment, and also because they are potentially shifted in their achievements tangled up in T along the 4 strategic loops. *These is those that it acts **to inform in additional Notes and Reports/ratios on strategic projects and braids of time.***

They are the elements of movements of “*process invariant of strategic management in globalization*” which is the main thing compared to the assessment of the assets and which modifies it by associating to him another value of the future of money market of t+1 in t. These elements compose - by the modifications of “*effects of correlations*” *who do not see themselves*, i.e. by these *unobservable* with the assessment by *leaned construction of modelings* - *the fair financial total value of the entity considered.*

These elements of movements thus constitute well one " *modeling* " according to item 110 of Framework of the IASC of 1989 by what is carried out the central process and invariant of " *production and of the measurement of the fair total value of the entity undertaken*" like capital K. Cf.ED conceptual Year improved framework for financial reporting may 2008 CH. 1 OB5 with OB6 and OB25 p.22 and OB14 p.18 for the non-subjective judgement.

This fair financial total value of the company in its stockholders' equity thus evaluated (comprehensive income) in the financial statements could not coincide by nature with the financial value of the money market for the reasons stated more high but converges there while approaching some as much as possible.

In conclusions these considering lead then to four inversions :

First inversion. It appears that level 3 is actually the principal level and not it level 1 or level 2 bus the visible assets and transactions on a market running veil in fact the invisible "proto-assets" which give the financial total value of the entity. Levels 1 and 2 successes in t thus appear the maximum danger to the managers and the investors.

Second inversion. It is necessary to proceed in t with a "die-tangle" of times former projection carried out in t, t+1, t+n and with a variation of the balance value of the assets of assessment IFRS by the addition of these corrective measures which make the end value of the capital on the money market. There are thus "recursions" which change the visible arithmetic values of the assets and make some *a special reading IFRS or ASU*.

Because it is not what succeeds today which counts but it who will succeed tomorrow with tangible conditional guarantees at the present to make known with the interested parties, investors and others. Then sizes numerical primary educations undergo one inversion contradictory. They become the "dialectical ones" where (+) becomes it (-) and it (-) becomes it (+).

The uncertainty of Assessment PACIOLI (except IFRS) rises with its roof while a probable certainty on objective information becomes clean Assessment IFRS or ASU in fair value documented well on " the work-in-progress structures and process of the entity concerned ».

Here *one passes from the technique of the addition to the technique of modeling* by changing same blow of mathematics by a jump of "the arithmetic abstract one" with " concrete categories ", i.e. with the realization of diagrams and the qualities quantified by calculation of relations.

Third inversion. What makes the choice of such company or capital with an other, it is that it presents a difference in its process of strategic management and its consequent operational management. This difference must be informed. This gives place to *respect of the modeling of this management by* by manager accountant /accountor" (financial/management) and "the accountee" (the legal without auditor).

Fourth inversion. material educational for the instruction on the IFRS and the ASU Cf. Proposal FASB p.4 and p.6 cannot be one cutting in sections any more by **standards** "not-integrated", "not-connected", "not-attached" to the heart of this enterprises of international standardization, i.e. without putting *the accent explicitemenT* on **this which makes of it the real unit and the behaviour immanente, which returns each standard understandable bus not-half-compartment of its genesis and its ratio being :**

- *the fair value in its tierceity of complete process (1),*
- *the central process and invariant of strategic management in globalization in its four loops (2),*
- *its reflexion of the explicitly marked temporal extension of braids of time (3),*
- *in the permanent auto-movement of this fair value (4).*

We developed these four items in a dedicated study.

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