

MEDIA RELEASE

Communiqué

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**Statement on Fair Value Accounting:
By Paul Cherry, Chair, Canadian Accounting Standards Board**

The clarification issued this week by the U.S. Securities and Exchange Commission's Office of the Chief Accountant and the staff of the Financial Accounting Standards Board in relation to fair value accounting requirements is consistent with Canadian accounting standards.

In Canada, the Accounting Standards Board has already issued three staff commentaries to help companies apply fair value accounting requirements when dealing with this country's own liquidity crunch. These commentaries provided companies with guidance on how to report to investors on their holdings of Asset-Backed Commercial Paper (ABCP). The first was issued almost a year ago.

Accounting Standards Board staff is considering expanding the commentary guidance to cover a wider range of investments.

Generally Accepted Accounting Principles require many investments in stocks and bonds to be measured at fair value. Investments carried at cost must be assessed for impairment at the time of reporting and, if determined to be impaired, must be written down to their estimated fair value as at the balance sheet date. Basically, Canadian companies are being asked to make a realistic estimate of the holding's fair value as at the balance sheet date and then clearly explain to investors how that figure was determined. In determining a holding's fair value, companies must estimate the price that market participants would sell for, or buy at, in an active liquid market, if there were one.

In times of financial crisis, it is natural to ask: "What went wrong?" Some people blame the current crisis on the increased use of fair value accounting for financial instruments. Yes, measuring fair value in turbulent times can be very difficult, but the huge swings in market prices reflect the reality of the marketplace. Do we really want financial statements based on management's guess as to what market prices might be in "normal" conditions at some point in the future? There is a growing realization that the accounting requirements are not to blame. Fair value accounting tells investors and the public "the way it is".

The Accounting Standards Board establishes financial accounting and reporting standards for use by Canadian companies and not-for-profit organizations. It also participates in the development of internationally accepted accounting standards. The Board sets its financial accounting and reporting standards after an extensive process of consultation with organizations and individuals that are interested in or affected by the standards. The standards contribute to enhanced decision making by continuously improving the quality of financial and other information about organizational performance reported by Canadian entities.

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