

**Valuation Resource Group
MINUTES OF MEETING
February 5, 2009**

The FASB Valuation Resource Group (VRG) met at the FASB offices in Norwalk, Connecticut on February 5, 2009, from 3:00 p.m. to 5:00 p.m. The following individuals participated in all or portions of the meeting:

VRG

Member

Affiliation

Paul Barnes

Duff & Phelps

Don Charles

Ernst & Young

Frank Ciccotto (by phone)

Standard and Poor's

Michael DeLuke

Houlihan, Lokey, Howard & Zukin

Wally Enman

Moody's Investors Service

Anita Ford

Clifton Gunderson

Greg Forsythe

Deloitte

Carla Glass

The Appraisal Foundation

Gordon Goodman (by phone)

Occidental Petroleum

Jolene Hart

McGladry & Pullen

David Larsen

Duff & Phelps

Michael Mard

The Financial Valuation Group

Jerry Mehm

American Appraisal

Andreas Ohl

PricewaterhouseCoopers

Greg Ramsey

Fannie Mae

Amy Ripepi

Financial Reporting Advisors

Chris Thorne

International Valuation Standards Committee

Gina Weaver

Pfizer

Brenna Wist

KPMG

FASB Board Members

Robert Herz, Chairman

Thomas Linsmeier

Leslie Seidman

Marc Siegel

Larry Smith

FASB Staff

Kristofer Anderson

Fellow

Meghan Clark

Postgraduate Technical Assistant

Russell Golden

Technical Director

Diane Inzano

Fellow

Ron Maples

Fellow

Jamie Mayer

Fellow

Adrian Mills

Fellow

Peter Proestakes

Assistant Director

Kevin Stoklosa

Assistant Director

Other Participants

Affiliation

Dan Noll

AICPA

Laurie Fitzpatrick Priest

Federal Reserve Board of Governors

Ryan Richards

International Accounting Standards Board

Greg Scates

PCAOB

Evan Sussholz

SEC

Shelly Luisi (by phone)

SEC

Introductory Remarks

1. Mr. Golden began the meeting by providing an overview of the issues to be discussed:
 - a. Issue 2009-1: The SEC study on mark-to-market accounting
 - b. Issue 2009-2: Proposed FASB Staff Position (FSP), FAS 157-c, *Measuring Liabilities Under FASB Statement No. 157*
 - c. Issue 2009-3: The AICPA draft Issues Paper, *FASB Statement No. 157 Valuation Considerations for Interests in Alternative Investments*

- d. Issue 2009-4: Goodwill impairment considerations.
2. He added that a member of the FASB staff would introduce each topic briefly, a member of the VRG would summarize the discussions on each topic during the private session and consensus, if any, of the VRG, and the topic then would be open for discussion.

Issue 2009-1: SEC Study on Mark-to-Market Accounting

3. Mr. Mills stated that with respect to the SEC study and the recommendations specific to additional guidance around fair value measurements, there are three interrelated issues:
 - a. When are markets active or inactive?
 - i. When can you move off of quoted prices and use models?
 - b. When are transactions distressed or forced?
 - c. How does liquidity impact a fair value measurement?
4. Mr. Mills added that the VRG would also discuss whether additional disclosures or presentation requirements that could facilitate a better understanding of fair value measurements and the impact of an entity's own credit on the fair value of liabilities it holds are needed.

Position(s) of the VRG

5. A member of the VRG summarized the discussion on the SEC's study as follows:
 - a. Members agreed that all of the issues outlined in the study are related and that further guidance on applying Statement 157 in practice would be helpful.

Active versus Inactive Markets

- b. Members agreed that the characteristics of an inactive market identified by the IASB Expert Advisory paper, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*, are helpful. However, members suggested that discussion of additional factors would be helpful—factors such as the amount of time involved in the selling process and the ability to execute the transaction for a given price as measured probabilistically.
- c. Members concluded that there is confusion in practice around the significance and meaning of Levels 2 and 3 of the fair value hierarchy and how each level relates to the variability around inputs used in determining the fair value of an asset or liability.
- d. Members suggested that the Board consider the linkage between the current market environment and the guidance it could issue around the definition and meaning of *inactive*. For example, the Board could define *inactive*, give examples of what is considered inactive (with particular emphasis on origination and secondary markets), and provide insight into the transition of a particular market from active to inactive.

- e. Members suggested that if the Board were to issue guidance, the guidance should include (1) factors to consider in the application of fair value principles and (2) examples.

Distressed Markets and Transactions

- f. Members discussed whether the factors outlined in paragraph 28(b) of Statement 157 are enough to determine whether transactions are distressed. Members concluded that additional guidance regarding distressed transactions would be helpful, especially with regard to the circumstances, if any, in which a distressed market would imply a distressed transaction (with an emphasis on secondary market evaluations).
- g. Members concluded that the factors listed in paragraph 28(b) of Statement 157 can be summarized into two categories: time and intent. Because intent is difficult to determine and because discerning time is a subjective exercise, it is hard to conclude in practice that any transaction is distressed or forced.

Liquidity and Credit

- h. Members agreed that isolating changes in fair value due to changes in liquidity, credit, and other factors would be complicated, costly, and challenging to make operational.
- i. Members suggested that the Board:
 - i. Consider whether the benefits of identifying and quantifying individual components of changes in fair value measurements and outweigh the costs of doing so.
 - ii. Consider adding presentation requirements, disclosure requirements, or both, as an alternative to requiring that changes in fair value due to changes in credit be presented as a component of an entity's net income and changes in fair value due to changes in liquidity be presented as a component of accumulated other comprehensive income.
 - iii. Research the needs of users of financial statements and the manner in which users would use the information gained from separating the liquidity and credit components of changes in fair value.
 - iv. Research how users would use information about changes in the fair value of liabilities and alternative investments.

Fair Value Measurement Disclosures

- j. A member of the VRG suggested that users would like additional disclosures regarding fair value measurements. The VRG members noted that many of the requested disclosures are similar to those discussed in the last VRG meeting:
 - i. A disclosure of the entity's economic value or expected loss

- ii. A tabular disclosure similar to that proposed by FSP FAS 107-a¹
- iii. Additional detail on valuation techniques and inputs used to determine fair value
- iv. Sensitivity of fair value measurements to changes in significant inputs
 - v. Detail around how an entity determines a market is active or a transaction is distressed.
- k. Members discussed sensitivity analyses, whether an entity providing information via a stress test or sensitivity analysis would be analogous to predicting the future, and how auditable the information contained within the stress test or sensitivity analysis would be.
- l. One member suggested that many of the disclosures mentioned and discussed are should be included in MD&A disclosure rather than financial statement footnotes. Some members agreed.
- m. Members discussed the importance of disclosures being included in interim statements, in addition to annual statements.

Own Credit

- n. Members discussed that rating agencies back out gains and losses through earnings related to the fair value of an entity's own debt due to changes in an entity's own credit risk. Members questioned whether the same adjustment is made for derivative liabilities.
- o. Members noted that diversity in practice exists with regard to whether an adjustment for the effects of own credit on the liabilities held by an entity is taken. Some financial institutions take into account the effects of own credit on the fair value of their liabilities whereas other institutions do not adjust their marks for the effects of own credit.

Discussion

Liquidity

- 6. Mr. Herz asked the VRG whether any guidance on illiquidity should be provided. A member stated that rather than determine the effects of illiquidity on the fair value of the asset or liability, it would be more straightforward to determine the fair value of the asset or security, which would include a consideration of the effects of liquidity. This member indicated that if Statement 157 were amended to exclude the effects of liquidity from a fair value measurement, the exercise of removing liquidity would be easier for some assets relative to others.

¹ The staff notes that at the January 23, 2009 meeting, the Board voted not to finalize the proposed FSP. The minutes of that meeting are located on the [FASB's website](#).

7. Mr. Siegel asked members whether they had discussed financial statement presentation and if so, whether they had considered the presentation of a fair value change as a whole versus the disaggregation of a fair value change into various components. A member stated that the group did not discuss financial statement presentation in detail. However, one suggestion was that realized changes in fair value be presented separately from unrealized changes in fair value. Mr. Siegel suggested that doing as the member suggested is akin to presenting incurred changes separately from other changes. The member agreed. Another member suggested that presenting economic value or the portion of the loss that is expected may be better (more decision-useful) than presenting incurred losses.
8. Mr. Linsmeier questioned, given the two disparate suggestions, whether the group had reached a consensus. A member stated that the group had not come to a consensus—there were multiple conclusions. The group recommended that the Board conduct research on how users would utilize the information about liquidity and credit because the results would then assist the Board determining what the appropriate conclusion should be.
9. Mr. Herz stated that some constituents suggest using an incurred loss approach, others suggest using an approach that results in an asset write-down only when there is absolute objective evidence that the cash flows will not be achieved, and still others suggest using an expected loss model involving whole pools of instruments. Mr. Herz agreed that the key question is to ask investors whether disaggregating credit and liquidity components of fair value changes is decision-useful and, if so, how the components should be disaggregated.
10. Mr. Linsmeier stated that Statement 157 is written such that regardless of whether entire markets are behaving rationally, one must determine whether a particular transaction is distressed. He added that one could observe distressed transactions in relatively active markets, though not as frequently as would be observed in markets that are not active. He suggested that perhaps the correct objective is not to define whether a market is active, but rather to define whether a transaction is distressed. He stated that given the VRG's comment that it is difficult in practice to determine whether a transaction is distressed, the Board may want to consider issuing guidance that contemplates whether a distressed market or inactive market could be indicative of a distressed transaction.

11. A member emphasized the earlier discussion regarding the factors in paragraph 28(b) of Statement 157 (see paragraph 5(f) and 5(g)). Because practitioners typically cannot gather evidence to determine whether a transaction is distressed, they must consider whether a market leads to distressed transactions. Moreover, practice looks to the quality of information utilized in a fair value measurement, which influences the variability around a fair value measurement. Often times, information that is provided by the fact that there is a lack of transactions in a market is overlooked. Additional guidance that includes market characteristics that would help practitioners determine whether transactions are distressed would be helpful. This would help practice to move away from the inclination to use an observable input, no matter how stale or dissimilar from the same transaction in an active market, all else equal.
12. Mr. Smith asked the VRG whether a distressed market is a subset of inactive markets or, alternatively, if all inactive markets are distressed. A member responded that a distressed market is not explicitly defined in GAAP, but that *distressed market* was used earlier to mean *a market in which distressed transactions occur*. Mr. Smith asked members if they believed that an inactive market is not necessarily distressed. Members stated yes.
13. Mr. Linsmeier stated that there are still very few Level 3 measurements based on the information provided by the SEC study, so it appears that there may be a bias in practice toward using unadjusted Level 2 measurements even in situations that may suggest that those Level 2 measurements require significant adjustments. He added that the risk of providing additional guidance that speaks toward the ability to adjust observable inputs is that Level 3 measurements may be used too heavily. A member stated that the VRG was also concerned that the SEC study on mark-to-market accounting showed such a low percentage of Level 3 measurements. However, VRG members expected to see a significant increase in Level 3 measurements for the quarter ending 12/31/08.
14. A member added that some believe that assets valued in Level 3 of the fair value hierarchy are perceived to be of lower quality than assets valued in Level 2 of the fair value hierarchy—a belief to which VRG members do not subscribe. This member added that the variability around the inputs is much more important; the level in the hierarchy does not speak to the quality of the information whereas the variability of the inputs does.

15. Ms. Seidman asked members if the process used to make a fair value measurement in FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active*, would be the same or similar to the process used to make fair value measurements involving transactions that are distressed. She inquired as to what the FASB would gain from issuing guidance on what transactions would be considered distressed.
16. A member stated that preparers need additional guidance by which they can comfortably adjust observable inputs and apply the principles in FSP FAS 157-3. Another member observed that with financial assets, there is a strong inclination to use the last transaction price without adjustment. (Other assets, for example real estate, take into account other factors, even if observable inputs exist.)
17. Mr. Herz asked how the quotes obtained from pricing services affect fair value determinations. A member stated that the quotes are used as inputs, but are not necessarily considered to be determinative of fair value. The member reiterated the need to evaluate the quality of the inputs and look behind the data to determine whether or not the quote would need to be adjusted. Mr. Linsmeier asked how often inputs from pricing services are adjusted. A member stated that historically few adjustments were made, but in the current market environment, adjustments are made more frequently.
18. Mr. Linsmeier inquired as to whether audit pressure to use a price rather than an adjusted price or model to estimate fair value is a concern to preparers. One member suggested that the inability to fully consider unobservable inputs and make adjustments to observable inputs, within the bounds of Statement 157, is a bigger concern than audit pressure (though audit pressure is a valid concern). This member added that FSP FAS 157-3 helps preparers and auditors to exercise more judgment.
19. Mr. Golden stated that another important consideration is the level of sophistication of the preparer. Some preparers obtain a pricing service quote or determine the price of the last transaction and because they don't have the resources and expertise available to construct independent models, they use the pricing service quote or last transaction price without adjustment. A member added that some preparers would prefer to make a Level 2, rather than

Level 3, fair value measurement because the disclosure requirements are less onerous for Level 2 fair value measurements.

20. Mr. Golden added that the Board and FASB staff do not believe that the fair value hierarchy in Statement 157, with regard to Levels 2 and 3, is rigid. Practice, however, applies the hierarchy rigidly. Mr. Siegel asked members if there is a major distinction between Levels 2 and Level 3 of the fair value hierarchy. Ms. Seidman also asked if condensing the hierarchy into two levels (for example, observable and unobservable) would help practitioners apply the guidance in Statement 157. A member stated that the questions had not been discussed during the private session; but, members look at the issue of fair value measurements mainly in terms of Level 1 versus Level 2 and 3, so the idea of condensing the fair value hierarchy into two levels may be useful to explore.

Fair Value Measurement Disclosures and Presentation Requirements

21. Ms. Seidman asked VRG members if providing additional disclosures as unaudited supplemental information would be sufficient. A member stated that if the Board would not require additional disclosure in the notes, then unaudited supplemental information would be sufficient. The member added that information that is relevant on an annual basis is also relevant on an interim basis and as such, the disclosures should be for interim and annual statements.
22. Mr. Herz asked members if they had discussed the level of aggregation of the suggested required disclosures. A VRG member stated that the level of aggregation had not been discussed. The member suggested that it be presented on the same level as the investment footnote.
23. Mr. Linsmeier asked if practice considered disaggregation by risk(s) or asset class more important. A member stated that with respect to assets, disaggregation should be by asset type, which also may encompass elements of risk(s). Mr. Golden added that members had discussed an approach to disclosure in which management would evaluate the embedded risk(s) to determine which assumptions should be disclosed and which assumptions should be presented in sensitivity analyses.

24. Mr. Linsmeier asked why auditing firms are able to audit companies that provide a sensitivity analysis under International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures*, but U.S. auditors and companies state that it would not be possible to audit sensitivity analyses if they were to be required disclosures under U.S. GAAP. Mr. Golden stated that two VRG members who are auditors had shared earlier that their firms already audit sensitivity analyses and stress tests and do not view the auditing of those analyses to be particularly troublesome.
25. Ms. Seidman stated that the Board attempted to anchor proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*, to a calculation required by current GAAP.² She added that the Board was concerned that more people would be unfamiliar with *expected value* rather than an *incurred loss model*. She added that comment letter respondents inquired as to why the FASB would impose the requirement to change book keeping systems when no one has the resources to do so. She inquired as to whether the focus of obtaining additional disclosures would be on some financial institutions and asset classes or all entities and all assets.
26. A member of the VRG commented that his organization has been in discussion with a number of issuers looking at the value of their securities, derivatives portfolio(s), or both. Often times, the issuers assert that the fair value determination made under Statement 157, which uses external market prices, does not equal the underlying economic value determined by the issuer. (Economic value is important to a credit rating agency's credit analysis). To the credit rating agency, fair value does not necessarily equal economic value. Rather, both fair value and economic value are data points used in a credit rating agency's credit analysis.
27. Mr. Herz asked members if most financial institutions were determining expected loss figures. A member stated that many are determining expected loss figures for both internal and external purposes.

Own Credit

² The staff notes that at the January 23, 2009 meeting, the Board voted not to finalize the proposed FSP. The minutes of that meeting are located on the [FASB's website](#).

28. Ms. Fitzpatrick-Priest stated that the Federal Reserve and other banking agencies require that banks remove the effect of changes in an entity's own credit on the fair value of liabilities (other than derivatives) that have been measured at fair value for regulatory capital purposes. Mr. Siegel stated that equity analysts do not remove the effects of changes in an entity's own credit. In doing so, they maintain the match between the measurement basis of assets and the measurement basis of liabilities.

Issue 2009-2: Proposed FSP FAS 157-c

29. Mr. Maples stated that comments received on the exposure draft of the proposed FSP indicated two primary concerns: (a) the fact that legal restrictions prevent the transfer of liabilities and (b) the proposed FSP's inconsistency with the principles outlined in Statement 157. He added that the VRG had discussed the two principles outlined in paragraph 7 of the most recent draft of the proposed FSP during its private session. Those principles include:

- a. Observable inputs into the fair value measurement of a liability shall include the quoted price for the identical liability when traded as an asset in an active market.
- b. When measuring the fair value of liability, the measurement shall capture the elements and general principles included in paragraphs B2 and B3 of Statement 157. The fair value measurement of a liability shall not include any input (premium or discount) relating to the absence of market participants for the transfer of the liability or existence of legal restrictions preventing the transfer of the liability.

Position(s) of the VRG

30. A member of the VRG summarized members' discussion regarding proposed FSP FAS 157-c as follows:

- a. Members agreed that the proposed FSP should apply to all liabilities. However, members suggested that the Board consider performing additional analysis with regard to the proposed FSP's application to derivatives.
- b. Members agreed that like FASB Staff Position FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, proposed FSP FAS 157-c allows practitioners the flexibility to take into account, in addition to observable inputs, other factors affecting fair value measurements.
- c. Members concluded that the fair value measurement that results from applying the proposed FSP's guidance would be a Level 2 measurement (that is, if the fair value of

- the liability is based on the quoted price of the corresponding asset traded in an active market, then the fair value measurement that results is a Level 2 measurement).
- d. Members observed that the ARO example in the proposed FSP includes the transferee's "profit" element whereas the other examples do not. Members concluded that nonfinancial liabilities would include a "profit" element, if necessary, whereas financial liabilities generally would not—the cash flows associated with a financial liability, per its contractual terms, would already include a "profit" element.
 - e. Members agreed that the asymmetry created in the fair value measurement of assets and liabilities—assets would incorporate the liquidity effects of restrictions on transfer whereas liabilities would not—is not bothersome, especially since there are other factors that could result in an asymmetry between the fair value of an asset and its liability complement.
 - f. Members suggested that the FSP clarify that the intent is not to exclude liquidity, in its entirety, as a factor in determining the fair value of liabilities.

Discussion

31. Ms. Seidman inquired as to whether members agreed that the FSP should result in an asymmetry between the fair value assets and liabilities. A member stated that the idea that the fair values could be different is seen in practice and does not overly trouble members.
32. Ms. Seidman gave the example of an interest rate swap and inquired as to what about the valuation process of the stream of cash flows would be different from the perspective of the holder and the issuer. A member stated that there would be factors that result in a different value depending on the perspective. However, another member stated that nothing would be different about the valuation process. Other members agreed.
33. Mr. Linsmeier suggested that at the transaction date (the date that the liability holder and the counterparty enter into the arrangement), restrictions on transfer would likely be built into the transaction price. He added that instead of the guidance stating that restrictions don't have to be considered in fair value measurements, the guidance could state that at the time of transaction, the restriction is built into the transaction price—either the restriction is there and material or it isn't material as evidenced by a small bid-ask spread on the transaction date. Subsequently, the interest rate being considered should encompass the same factors that affected the day one interest rate—the rate should not change.
34. Mr. Golden suggested that a lot of the embedded restrictions to get relief to transfer should be considered, rather than the restrictions just embodied in the instrument. Mr. Linsmeier inquired as to whether the mechanism by which one can exit on day two is being

overemphasized. That is, practitioners should look at the hypothetical nature of the transfer between parties on day two and not build in the action of settlement. Because the transfer is hypothetical, the measurement would automatically be in Level 2 of the fair value hierarchy. Moreover, if objective information cannot be obtained with respect to the hypothetical transfer, the fair value measurement would move into Level 3 of the hierarchy.

35. Mr. Herz inquired as to whether there are observable differences in pricing between listed bonds versus other liabilities that are not registered and can't be transferred. He stated that he'd expect there to be a difference.
36. Ms. Seidman asked members if they believe that the price quoted for the item traded as the asset is the fair value of the item as a liability. She stated that she believes that is so. Mr. Mills added that in most circumstances, the staff believes that would be true. However, in some cases, for example, when the unit of account affects the fair value measurement, that premise may not be true. He added that those circumstances identified in paragraph 17 of Statement 157 may indicate why the value of the liability may not be the price of the liability traded as an asset.
37. Mr. Herz asked the VRG its general reaction is to the FSP. A member suggested that some things in the example may need to be reexamined and the addition of verbiage before the examples may be helpful. For example, with regard to the asset retirement obligation example, the ability of preparers to estimate the "profit element" included in the example may need to be examined. Mr. Anderson stated that the staff included an additional market risk premium, or "profit element", the inclusion of which is consistent with the guidance in paragraphs B(2) and B(3) of Statement 157. He added that the key question may be how the additional market risk premium should be derived.
38. Mr. Smith suggested that the Board use the proposed FSP as a practical expedient to measuring the fair value of a liability and not to rationalize and explain its consistency with Statement 157.

Issue 2009-3: AICPA draft Issues Paper on Valuing Interests in Alternative Investments

39. Mr. Anderson stated that the VRG had discussed the Issues Paper on valuing interests in alternative investments, which provides nonauthoritative guidance on the application of

Statement 157 to determining the fair value of interests in alternative investments that are not traded in active markets. He added that the VRG's discussion centered around the content of document and whether net asset value is a reasonable proxy for fair value.

40. A member of the VRG stated that previously, the VRG had concluded that net asset value is not equal to fair value in all circumstances. However, the member stated that industry generally considers net asset value to be equal to fair value. The draft Issues Paper was needed to reconcile the two views by demonstrating that net asset value will not equal fair value unequivocally. The member added that because Issues Papers are not an authoritative source of GAAP, the paper may not be as influential and helpful as intended.

41. A member added that the views of the Alternative Investments Task Force (AITF) of the AICPA Accounting Standards Executive Committee are varied as well. That member summarized the conclusions reached by the AITF as follows:

- a. The limited partnership interest is the unit of account rather than the underlying assets of the investment fund.
- b. The principal market is the secondary market. However, the secondary market generally lacks transparency because information about individual transactions is difficult or impossible to obtain.
- c. The net asset value of the limited partnership interest is based on the fair value determination made by the general partner. The limited partner must then consider whether the net asset value is an appropriate estimate for the fair value of a limited partnership interest or whether adjustments are required.

The views of the AITF are varied with regard to what the valuation method outlined in the draft Issues Paper is deemed to be—the best estimate of fair value *or* a practical expedient to the calculation of fair value.

42. The member added that two fundamental questions arose in the AITF's discussions:

- a. With regard to instruments that can't be traded (for example, hedge funds were cash can only be obtained from the manager), how should gates affect the fair value determination?

- b. Is there a way to provide authoritative guidance that gives investors a practical way to deal with assessing the fair value of their investments and does doing so push to a narrowly-scoped practical expedient?

Position(s) of the VRG

43. Members also discussed redeemable and nonredeemable interests and the valuation of such interests, but reached no consensus with regard to how the interests should be valued.

Discussion

44. Ms. Seidman asked whether the draft Issues Paper is open to comment. Mr. Noll stated that the Issues Paper is open to informal comment until the end of February. He added that any additional insight gained from respondents' comments would be shared with FASB staff.
45. Mr. Golden noted that there is a consensus that the draft Issues Paper is consistent with the principles of Statement 157, but that fair value is perhaps not the best way to address the valuation of interests in alternative investments. If that were true, the Board would need to consider changing the measurement attribute of alternative investments to something other than fair value and consider how that change in measurement attribute would impact the measurement of similar assets.
46. Mr. Herz added that it is not particularly decision-useful to determine net asset value and then take an additional discount for a transaction in which he, as the hypothetical limited partner, could not engage. He agreed with Mr. Golden's summary—the definition of fair value in Statement 157 requires that the valuation of limited partnership interests consider the effects of restrictions. If the Board were to require the use of net asset value in valuing alternative investments that are not traded in active markets, the Board would have to address whether fair value is the appropriate measurement attribute for other restricted assets.
47. A member gave the following example:
 - a. A pension fund manager takes \$100 and invests the entire amount in a fund-of-funds. The fund-of-funds then invests the entire \$100 in an alternative investment. The \$100 is effectively available for distribution on the measurement date.

The member questioned whether it made sense to discount the fair value of the investment at each transfer level even though the entire amount, if distributed, would flow right to the limited partner. He believed that it did not.

48. Mr. Smith reiterated that the key question is whether fair value is the appropriate measurement attribute of alternative investments that are not actively traded, assuming a definition of fair value consistent with Statement 157. A member stated that several VRG members concluded that it may be easier to change the measurement attribute of an alternative investment that is not traded in active markets than it is to explain the logic of valuing alternative investments consistent with the principles of Statement 157. Another member suggested that changing the measurement attribute of alternative investments that are not traded in active markets would have an unintended consequence—other constituents would want to know why similar assets could not be valued in the same manner.
49. Ms. Seidman asked whether there was discussion challenging the assertion that the secondary market is the principal market. A member stated that members did challenge the assertion. Another member added that whether the secondary market is the principal market is a key discussion point of the AITF and that members of the AITF have strong differences in opinion.
50. Mr. Linsmeier asked if the fund manager doing a net asset value calculation is completing the calculation in contemplation of what would happen if the holding was sold at the measurement date. A member stated that the fund manager is preparing a fair value measurement determination on a quarterly basis for the fund’s own financial statement purposes. The secondary market buyer, if any, will perform an independent analysis using the fund manager’s fair value calculation but will augment that calculation with independent research.
51. Mr. Anderson emphasized that the fund manager performs a fair value determination, but that it is incumbent on the limited partner to make sure that the fund manager’s fair value measurement was prepared appropriately. He added that a member of the VRG had suggested that fund managers are more frequently performing valuations that comply with Statement 157. This member added that until around 2003, investment cost was considered an appropriate approximation of fair value by many fund managers.

Issue 2009-4: Goodwill Impairment Considerations

52. Ms. Inzano stated that at the 2008 AICPA National Conference on Current SEC and PCAOB Developments, a member of the SEC staff from the Office of the Chief Accountant gave

remarks on the SEC's view regarding certain issues related to goodwill impairment. The remarks related primarily to :

- a. Reconciling the sum of the fair values of reporting units to market capitalization
- b. Control premiums.

53. She added that the VRG had discussed the SEC's remarks during the private session. The discussion centered on whether the remarks made by the SEC staff are helpful, whether those remarks address issues that VRG members encounter in practice, and whether any additional guidance regarding goodwill impairment issues is needed.

Position(s) of the VRG

54. A member of the VRG stated that the comments provided by the SEC (at the December 2008 AICPA National Conference on Current SEC and PCAOB Developments) regarding certain issues related to goodwill impairment are very helpful. This member added that with regard to additional guidance, the market capitalization reconciliation (in which an entity reconciles the aggregate fair value of the reporting units identified to its market capitalization) is almost always facts- and circumstances-based.

55. Members spent a significant amount of time discussing the nature and measurement of a control premium which generally is analyzed after a reconciliation has been completed. Members concluded that rather than calling the subject at hand a *control premium* (a misnomer), it is more appropriate to refer to it as a *transaction premium*—the premium may or may not be due to control. One member added that The Appraisal Foundation is considering forming a task force to provide nonauthoritative guidance on the application of control premiums and best practices information.

56. Members concluded that with regard to the manner in which the FASB could address the issue, guidance would be helpful. However, members agreed that in three months (when fiscal year end 12/31/2008 financial filings are complete), practice will have dealt with the problem itself. At that point, the FASB can reevaluate whether guidance is needed.

57. Members discussed the effects of debt on a company's market capitalization. Members noted that the question in practice is whether to consider the debt at fair value or par value. Beyond the issue in practice, VRG members did not discuss the topic further. A member

noted that Mr. Golden had earlier stated that there may be an Emerging Issues Task Force (EITF) Issue that addresses the issue in practice.

Discussion

58. Mr. Golden stated that in the closed session, members had also discussed (a) the need for education regarding what a control premium is, (b) what the components of a control premium are, and (c) when valuing a reporting unit, who is the market participant practice should consider. A member stated that practice looks to potential acquirers for the reporting unit in question.

Other Issues

59. Mr. Golden asked the Board and members of the VRG if there were other issues of which they would like to speak. A member of the VRG emphasized the continuance of the last transaction bias and the need for preparers and other practitioners to move away from that input, when appropriate, and consider other relevant inputs to estimate fair value.

Adjournment

60. Mr. Golden thanked members of the VRG for sharing their insights with the Board. The meeting was then adjourned.