

LEHMAN BROTHERS

September 7, 2004

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Director - Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, Connecticut 06856-5116

Letter of Comment No: 61
File Reference: 1201-100
Date Received: 9-8-04

By email to: director@fasb.org

Re: File Reference No. 1201-100, Proposed Statement of Financial Accounting Standards, *Fair Value Measurements*

Lehman Brothers is a leading global investment bank that serves the financial needs of corporations, governments and municipalities, institutional clients and high-net-worth individuals worldwide by providing equity and fixed income sales, trading and research, and investment banking, private equity, asset management and private client services. We appreciate the opportunity to comment on the Financial Accounting Standards Board's (the "Board") Exposure Draft, *Fair Value Measurements* (the "Exposure Draft" or "ED"). Lehman Brothers is supportive of the Board's stated goal in issuing the ED, including improving the consistency and comparability of fair value measurements and providing enhanced disclosures. As a leading global investment bank which utilizes fair value measurements for all its trading assets/liabilities, we believe that we can offer significant fair value expertise in providing commentary on the Exposure Draft. We actively participated in the development of a joint comment letter on the ED by several industry trade organizations including the Bond Market Association, the International Swaps and Derivatives Association and the Securities Industry Association (the "Industry Letter"). Lehman Brothers supports the Industry Letter (see attached). In addition, Lehman Brothers offers comments on the ED that we believe to be most significant to improving the effectiveness of a final fair value measurement standard.

Offsetting Positions

We are in support of the ED's general principle that assets should be marked to bid and liabilities should be marked to ask, with offsetting positions being recorded at mid-market levels. However, the ED does not appear to permit this principle of mid-market pricing for offsetting positions to be utilized across the various hierarchy levels. We believe this principle should be expanded to apply to all instruments recorded at fair value regardless of hierarchy level.

In support of our position, we offer as an example a purchased listed equity option with a three month maturity and a written OTC option on the same equity with a remaining three month maturity. We believe the listed option will be categorized as a level 1

instrument and the OTC option will be categorized as a level 3 instrument. As the economic risk of these instruments offset, we believe applying a mid-market volatility price is appropriate.

Marking to one's own credit spread

We agree with the Board's definition of fair value, such that the fair value of a liability can only be determined after consideration of an issuer's credit spread. However, we do not believe fair value measurement of liabilities – inclusive of changes in an issuer's credit spread – is a relevant measurement principle in many instances. In our view, if the impact of credit spread changes cannot be realized by an institution, then recognition of such liability at fair value is not appropriate. Take for example an institution with long-term debt that experiences significant credit deterioration. If such institution were to record its debt at fair value – inclusive of changes in its credit spread – it would be recognizing gains as its credit deteriorated. Such gains would not likely be economically realized as the institution would not likely be able to retire its debt without re-offering new debt at the higher spread levels to fund the repurchase. Therefore, we strongly believe liabilities should not be recognized at fair value – inclusive of changes in an issuer's credit spread – unless the effects of such changes are realizable. We believe the addition of this realizability condition is a necessary change to the ED's measurement guidance when recording liabilities at fair value.

Disclosures

We support the ED's goal of providing additional disclosures regarding the relative pricing transparency for instruments measured at fair value. We do not however support the requirement to provide additional disclosures regarding realized and unrealized gains and losses during the period, for instruments carried at fair value. We do not consider such information to be useful, rather we believe such information could potentially be misleading to investors. Take for example two firms having purchased the same less liquid instrument, the first firm purchased these assets for \$80 at the beginning of the period and the second firm purchased identical assets for \$90 during the period. In this example, if both firms utilized the same \$100 fair value measurement at period end, one firm would disclose \$20 of unrealized gains with the other disclosing only \$10. We are concerned that investors could inappropriately infer that the first institution's assets were valued utilizing greater subjectivity, when in fact this is not the case as both institutions utilized identical pricing. Additionally, as realized versus unrealized data is not captured by many financial institutions, we believe the significant costs associated with obtaining such data would outweigh the potential benefits.

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We appreciate the opportunity to provide you with our comments and request that Lehman Brothers be offered the opportunity to participate in the September 21, 2004 public roundtable meeting in Norwalk, Connecticut to discuss commentary received on the ED. If you have any questions, please do not hesitate to contact me at 212-526-0588 or Kristine Smith at 212-526-0664.

Sincerely,

/s/ Edward S. Grieb

/s/ Kristine Smith

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Assistant Controller & Chief Accounting Officer

Kristine Smith
Senior Vice President
Director of Accounting Policy

cc: David Goldfarb
Christopher M. O'Meara