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LETTER OF COMMENT NO.

95

committee on corporate reporting

October 9, 2008

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board ("FASB")
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed FSP No. FAS 157-d

Dear Mr. Golden:

The Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciates the opportunity to share its views on the proposed FASB Staff Position No. 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active* ("the proposed FSP"). FEI is a leading international organization of senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually.

SEC-FASB Joint Clarification Issued September 30 Should Be Recognized As GAAP

We commend the FASB and the U.S. Securities and Exchange Commission (the "SEC") for recently issuing their joint clarification of applying fair value accounting in inactive markets. CCR appreciates that this was published by quarter-end for calendar year-end companies. Additionally, we believe the joint clarification is conceptually sound, practical, and likely to be helpful as companies strive to apply the fair value measurement standards in today's difficult markets. The historically uncharacteristic level of illiquidity in the current markets has stressed the application of the market participants model for arriving at fair value as required under FAS 157, *Fair Value Measurements* ("FAS 157").

We would recommend, however, to alleviate any potential concerns regarding the authoritative nature of an SEC press release that the FASB or SEC considers formalizing the joint clarification by publishing it in the form of a Staff Accounting Bulletin (SAB) or by noting publicly that it will be reiterated in an SEC staff announcement at an upcoming EITF meeting.

Comments on the Proposed FSP

We appreciate the FASB's intent via the proposed FSP to clarify the application of FAS 157 in an inactive market by providing an illustrative example to "demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive". We do have concerns with the example provided, because we think it still produces a fair value measurement that reflects a transaction price in an illiquid market and thereby undermines the potential benefit of the clarification provided by the SEC-FASB announcement. Our specific comments on the proposed FSP follow below.

We believe that the proposed FSP has is clear that "management's internal assumptions about future cash flows" can be used in determining fair value for a financial asset in an illiquid market. However, as currently written, we interpret the example to indicate that those cash flows are required to be discounted using rates that reflect current market participant assumptions including those related to credit and liquidity risk. We believe that the end result of this interpretation is a measure of fair value that is still reflective of a distressed sale vs. a transaction between a willing buyer and willing seller under the requirements of FAS 157.

We do not believe that FASB intended for this result. As such, we would recommend amending the proposed FSP in order to clarify its intent and make it consistent with the thrust of the SEC-FASB joint statement which recognized the validity of considering management's cash flow analysis, intent and ability to hold financial instruments as part of the total mix of information to be considered measuring fair value in inactive markets, along with the application of professional judgment.

Specifically, we recommend that Paragraph A 32C be amended as follows:

"A32C. Entity A determines that an income approach (present value technique) that maximizes the use of observable inputs in an active market and minimizes the use of unobservable inputs or observable inputs in markets that are either inactive or disorderly will be equally or more representative of fair value than the market approach used at prior measurement dates. Specifically, Entity A uses the discount rate adjustment technique described in Appendix B of Statement 157 to determine an indication of fair value."

Separately, we would suggest that in order to avoid any confusion or unintended consequences due to the chronological order in which the SEC-FASB joint guidance and FSP are issued, or due to any presumed 'hierarchy' arising from the form in which the SEC-FASB joint statement was issued (i.e. in a press release), the final FSP should explicitly state it does not amend or supercede the SEC-FASB joint clarification. FASB should consider incorporating the SEC-FASB clarification as an attachment to the FSP if that would assist in treating the SEC-FASB clarification as part of GAAP today and the codification of GAAP permanently.

In conclusion, CCR would support the issuance of the FSP if Paragraph A 32C is amended as noted above. Alternatively, CCR would not object if the FASB decides not to issue the FSP, since we believe it does not currently improve upon, and may conflict with, the guidance provided in the SEC-FASB joint statement.

We appreciate the Board's consideration of these matters and welcome the opportunity to discuss any and all related matters.

Sincerely,



Arnold C. Hanish
Chairman, Committee on Corporate Reporting
Financial Executives International

Cc: Conrad Hewitt, Chief Accountant, SEC
Tom Ray, Chief Auditor, PCAOB