

Milton J. Miller  
President & CEO

*Building Partnerships. Serving Communities.*

March 30, 2009



LETTER OF COMMENT NO. 204

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

File Reference: Proposed FSP FAS 157-e.

Dear Mr. Golden:

Thank you for the opportunity to comment on the proposed FASB Staff Position FAS 157-e, "*Determining Whether a Market is Not Active and a Transaction is Not Distressed*," (hereinafter referred to as the "proposed FSP"). The Federal Home Loan Bank of Indianapolis believes the proposed FSP is an improvement over the existing guidance in FSP FAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active*."

However, we believe that further substantial changes, as discussed below, are necessary to address fair value measurement application issues in an inactive market. We are seeing first hand that raw jumbo loans without credit enhancements are being sold in bundles at much higher prices than equivalent pools of mortgage securities with credit enhancements. Although the securities should be more liquid and tradable, the market is telling us that raw loans trade better because the held-to-maturity investor cannot take the accounting risk associated with the current other-than-temporary impairment literature. The market aberration caused by this accounting rule must be fixed.

We are concerned that the presumptive nature of Step 2 of the proposed FSP, which does not allow entities to apply judgment, could lead to measurements that do not faithfully represent an entity's best estimate of fair value. For example, the Step 2 factors may not be readily evidenced in inactive markets and may not be evidenced on a reliable basis even in active markets (e.g., just the existence of multiple bids is not definitive evidence that a transaction is not distressed). The application of paragraphs 13 and 15 of the proposed FSP may have the unintended consequences of requiring pricing information to be discarded even if the preparer considers those inputs to be relevant to the fair value measurement. Therefore, we recommend that the Board allow preparers to exercise judgment when evaluating whether a financial asset's price is associated with a distressed transaction rather than creating a presumption that may be impossible to overcome. The final guidance could be modified such that the two conditions in paragraph 13 of the proposed FSP represent factors that are considered when determining whether a price is distressed and also permit judgment to be applied in arriving at a final conclusion.

We also recommend that the final FSP include guidance regarding the effort that will be required of an entity in terms of gathering evidence with respect to applying the two-step process. Without additional guidance, this terminology is subject to interpretation and could lead to future challenges of an entity's application by auditors, regulators or other authoritative bodies. In this regard, we recommend that the final FSP provide guidance consistent with paragraph 30 of Statement 157, specifically the following provisions:

In developing unobservable inputs, the reporting entity **need not undertake all possible efforts to obtain information** about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if **information is reasonably available without undue cost and effort** that indicates that market participants would use different assumptions. [**emphasis added**]

We urge the Board to amend the presumptions and requirements as described above to provide operable relief to entities as soon as practicably possible with the least impact to valuation methodologies. If such modifications are made, we believe the proposed effective date is operational.

We believe that if the modifications we have suggested above are made, the proposed FSP will improve financial reporting by addressing fair value measurement application issues related to determining inactive markets and whether a transaction is distressed. We also believe that the amendments to Statement No. 157, *Fair Value Measurements*, should be made. However, we believe that Statement 157 (and the proposed FSP) lacks detailed guidance to assist management in selecting appropriate market-based discount rates and risk premiums for estimating fair value. To avoid differing interpretations among management, independent accountants and regulators, we recommend that the final FSP amend Statement 157 to provide specific guidance regarding appropriate discount rates and risk premiums.

We thank the Board for its consideration of the Bank's views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (317) 465-0450.

Sincerely,



Milton J. Miller  
President & CEO