



**Moody's Investors Service**

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



LETTER OF COMMENT NO. **88**

Re: Proposed FSP FAS 157-d

Dear Mr. Golden:

We appreciate the opportunity to comment on the FASB's proposed amendment to FASB Statement No. 157, *Fair Value Measurements*. We understand that the invitation to comment on the proposal is intended to serve the needs of a broad audience of users, the perspective we offer is that of credit analysts.

Moody's is generally supportive of fair value measurement as defined in Statement No. 157 as it applies to financial assets. In particular, we concur with the definition of fair value put forth under the standard, where fair value is the price received to sell a financial asset in an orderly transaction between market participants at the measurement date.

As such, we were pleased to note that the proposed amendment did not change the fair value measurement principles put forth under Statement No. 157, but rather provided application guidance. That said, we are concerned that the illustrative example included in paragraph 11 of the proposal may provide more leeway than intended to financial statement preparers in ignoring observed market prices in determining fair value.

Specifically, paragraph A32A of the amendment discusses an example where an entity determines that the market for debt securities is inactive due a combination of the following factors: a widening of the bid-ask spread, a significant decrease in the volume of trades relative to historical levels, and few observable transactions for the debt obligation or similar obligations. Although the guidance does not appear to be contrary to that put forth in the original statement, it is possible that some financial statement preparers may focus upon the example as justification in ignoring observed transaction prices for assets held or similar assets, due to diminished trade volume or bid-ask spread widening.

We acknowledge that it would be difficult for the FASB to put forth bright line tests regarding what level of market activity would be deemed 'active'. However, it would be helpful for financial statement users if additional disclosures were required when preparers use Level 3 valuation methods in arriving at fair value because a market is considered to have become inactive, including the following:

- Details of market prices or broker quotes that were available for the same or similar securities that were ignored by the preparer due to a determination that the market was inactive or the price was not current;
- How the preparer determines whether a market is active;
- Explanation of any adjustments to transaction prices or quotes to arrive at an entity's determination of fair value;
- The impact on asset valuations, the income statement, and equity if such prices or quotes were not ignored or adjusted;
- A discussion of how sensitive fair value estimates for a preparer's assets are to significant assumptions or adjustments;
- A discussion of significant inputs that the preparer no longer considers observable, therefore necessitating a transfer from Level 1 or 2 to Level 3 during a reporting period;
- How the preparer determined discount rates to apply to future cash flows when utilizing the income approach to valuation due to the lack of observable market prices.

In general, given the clear desire by some constituencies, including reporting entities and trade groups, to move away from the use of market prices observed in the currently strained environment in valuing assets, it would be beneficial for users to receive more detailed disclosures of valuation methodologies and adjustments, in order to reach an informed opinion on the quality of a reporting entity's marks.

Thank you for considering our comments. We would be pleased to discuss any questions you may have at your convenience.

Sincerely,



Wallace Enman  
Vice President  
Senior Accounting Analyst



Mark LaMonte  
Senior Vice President  
Head of Enhanced Analytics Group