



March 30, 2009

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



LETTER OF COMMENT NO.

159

File Reference: Proposed FSP FAS 157-e.

Dear Mr. Golden:

The Federal Home Loan Bank of Atlanta appreciates 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"). Our specific comments to the questions raised in the Proposed FSP are attached. Our general comments are outlined below.

The proposed FSP is a step in the right direction. The proposed FSP appropriately shifts the burden of proof to using quoted market prices only if evidence exists that such quotes were not distressed. 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*," (hereinafter referred to as "FSP FAS 157-3") effectively placed the burden of proof on entities to support that quoted transaction prices were distressed or the result of forced sales in order to use a valuation model approach such as the income approach. This means that entities would have to know who the counterparties were in trades that they were not a party to as well as the intent/financial condition of such counterparties – that is, whether or not they were willing or forced participants. Such a standard is simply not operational.

The two step approach is more operational than FSP FAS 157-3; however, we believe that further enhancements would make it operational for all entities as discussed below.

- The final FSP should explicitly address the use of pricing services. Specifically, the proposed FSP should indicate that an entity may use the fair value provided by a pricing service provided that the fair value received is consistent with the guidance in this proposed FSP. In this regard, the final FSP should specify what evidence would be required from pricing services to utilize the fair value it provides to its customers.
- More explicit examples of both step 1 and step 2 would be useful. In particular, for step 1, it would be useful to have a detailed example highlighting when an active market exists and another example highlighting when it does not exist. For step 2, it would be useful to have a detailed example highlighting when a quoted market price should be used and when a model should be used. A suggested example is outlined below:

ABC Company determined that it should use an internal pricing model for its private label mortgage backed securities rather than the fair value provided by a pricing service at March 31, 2XXX. The rationale for the company's decision is as follows:

- Step 1: The current market for private label mortgage backed securities is inactive. This is because of the ongoing credit deterioration in the mortgage market, in combination with the large price variability between third party pricing services across prime interest-first, subprime and Alt-A sectors, a widening of bid-ask spreads, low volume and evidence of distressed sales.
- Step 2: ABC Company has no evidence or reason to believe that there was insufficient time before the measurement date to allow for usual and customary marketing activities for its private label mortgage backed securities. Further, the current low volume relative to the volume when the market was considered active and evidence that distressed have occurred highlights the lack of multiple bidders on these securities that are making bids to willing as opposed to distressed sellers. As a result, ABC Company presumes that the quoted market price relates to distressed sales.
- In the event of multiple bidders, it is still difficult to know whether a particular transaction is distressed. If so, this could skew the quoted market price. Accordingly, we recommend that the fair value determined under the entity's valuation model or the fair value provided by a pricing service should be compared to such a quoted market price. If a significant variance exists, then the guidance in paragraph 14 of the proposed FSP should apply and adjustments should be made to the quoted market price, in effect a step 3 to the valuation process.
- We strongly recommend that the proposed FSP include guidance as to what effort will be required of an entity in terms of gathering evidence with respect to applying the two step process (or three step process if our previous suggestion is applied). Such guidance is necessary to facilitate financial statement preparation between an entity and its auditors and regulators. In this regard, we recommend the guidance found in Statement 157 be incorporated into the proposed FSP.
- A reference should be added to Statement 157, paragraph 30, which states the effort that is required to gather evidence. Specifically, the following should be added:

“Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. 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.”
- The concept of significance should be more clearly defined. For example, the concept in Statement 157, paragraph 29, could be used – that is, if an adjustment is needed that is significant enough to cause the security to be downgraded from Level 2 to Level 3 in the fair

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value hierarchy, then this represents prima facie evidence that the market is inactive and that a distressed transaction has occurred.

We thank the Board for its consideration of the recommendations of the Federal Home Loan Bank of Atlanta and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (404) 888-8148.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Daniel Counce", with a long horizontal flourish extending to the right.

J. Daniel Counce  
Senior Vice President and Controller  
Federal Home Loan Bank of Atlanta

cc: Robert H. Herz, Chairman, Financial Accounting Standards Board

### Responses to Specific Questions

#### Question 1:

Is the proposed effective date of interim and annual periods ending after March 15, 2009, operational?

#### Response to Question 1:

Yes, we believe it is operational for interim and annual periods ending after March 15, 2009 if additional guidance is provided.

#### Question 2:

Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in this proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?

#### Response to Question 2:

We believe the amendments of the proposed FSP are necessary. Further, we believe amendments related to our general comments in the letter above would further enhance the proposed FSP.

#### Question 3:

Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transactions.

#### Response to Question 3:

We believe further enhancements should be made as discussed in our general comments to make the two-step model operational for all entities.

#### Question 4:

Are the factors listed in paragraph 11 of the FSP that indicate that a market is not active appropriate? Please provide any other factors that indicate that a market is not active.

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**Response to Question 4:**

We believe the factors are appropriate; however, as discussed in our general comments, we believe detailed examples on how to apply these factors should be included in the final FSP.

**Question 5:**

What costs do you expect to incur if the Board were to issue this proposed FSP in its current form as a final FSP? How could the Board further reduce the costs of applying the requirements of the FSP without reducing the benefits?

**Response to Question 5:**

We do not expect to incur significant incremental costs; however, we believe costs would be lowered if the Board adds a provision similar to Statement 157, paragraph 30 as discussed in our general comments in the letter above.