

From: Scott Christensen [mailto:sr_christensen@hotmail.com]
Sent: Thursday, October 09, 2008 9:01 PM
To: Director - FASB
Subject: Comments on Proposed FSP FAS 157-d



LETTER OF COMMENT NO.

94

I appreciate the opportunity to comment on this proposed FSP and I provide my opinion with humility. I generally support the Board's fair value accounting agenda, but I think a portion of the guidance included in the proposed FSP could be viewed as contradictory to the Board's definition of fair value in Statement 157. In Statement 157 the Board defines fair value as the exit value in an orderly transaction. In the proposed FSP, the Board notes that a liquidity risk premium should be incorporated into the valuation of an instrument that trades in an inactive market. One of the characteristics of an inactive market, as noted by the Board, is the presence of disorderly transactions. Incorporating a liquidity risk premium in the valuation of an instrument that trades in an inactive market characterized by disorderly trades has the effect of incorporating disorderly trade values into the estimated fair value of the instrument. The liquidity risk of purchasing an instrument that trades in an inactive market would reflect the risk that a holder needing to sell the instrument would have to sell it at a distressed price, which would be a disorderly transaction. This is not consistent with the Board's "orderly transaction" based definition of fair value. In order to eliminate the contradiction between the Board's definition of fair value and the proposed guidance of incorporating liquidity risk premiums into the valuation of instruments that trade in inactive markets, the Board should consider requiring financial statement preparers to exclude liquidity risk premiums when performing valuations of these instruments. Otherwise, I do not see much of a point in issuing this guidance because the inclusion of a liquidity risk premium in the valuation of instruments that trade in inactive markets will likely result in valuations that are materially consistent with the distressed quotes received from the inactive markets. The lack of liquidity is the root of the disorderly transactions we are seeing in the market. I don't believe you can incorporate liquidity risk in valuations of instruments that trade in inactive markets and arrive at a fair value that is solely based on orderly transactions.

Regards,

Scott Christensen