

SUBJECT: Proposed FSP FAS 157-d
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CC:
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LETTER OF COMMENT NO. //

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File Reference: Proposed FSP FAS 157-d

Thank you for the clarification that the proposed FSP is providing around determining fair value in a market that is not active. While it is clear in the pronouncement itself that:

Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market)(section 28 page11) can be considered observable inputs (level two) and that in a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets. (Section A20 c Page 25)

Accordingly the SEC Office of the Chief Accountant and FASB Staff Clarifications on fair value Accounting 2008-234 seems to support the notion of market quotes in inactive markets as being observable inputs as evidenced by its demonstration of how this level two input becomes a level three when mixed with unobservable inputs. What I think would greatly enrich the Proposed FSP would be to clarify the second bullet point under A32D:

Indicative quotes (that is, nonbinding quotes) for the collateralized debt obligation security from brokers or independent pricing services based on proprietary pricing models (that is, Level 3 inputs) imply a rate of return of 25 percent.

Further clarification would result if it read ...proprietary pricing models utilizing significant unobservable inputs.... A quote in an inactive brokered market that is reflective of the value of the security in question has already been established as an observable input. Without this type of

clarification I believe parties run the risk of inferring that quotes in inactive brokered markets are by definition Level three.

Thank you,

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