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LETTER OF COMMENT NO. 37

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Re: File Reference: Proposed FSP FAS 107-a

Grant Thornton LLP appreciates the opportunity to comment on the proposed FASB Staff Position (FSP) FAS 107-a, "Disclosures about Certain Financial Assets." We support the Board's effort to improve financial reporting for financial instruments. Although we support the stated objective of the FSP, we are concerned that the incremental costs of providing these disclosures do not likely justify the potential benefits. We also disagree with the proposed approach to achieving that objective. In the event the Board does intend to adopt the proposed FSP, we believe that certain provisions should be modified.

Our primary concern is that, under the FSP, reporting entities will need to maintain accounting records for most financial assets under two or three measurement attributes in order to provide meaningful information to users. We do not support the presentation of pro-forma income from continuing operations amounts under different measurement attributes as proposed.

Our responses to the questions for which the Board requested comment in its Notice to Recipients are as follows.

Do you believe that requiring disclosure of different reporting measurement attributes (that is, as reported in the statement of financial position, at fair value, and at the incurred loss amount) for certain financial assets within the scope of this proposed FSP would (a) improve the quality of information provided to users of financial statements and (b) increase the comparability of financial statements under U.S. generally accepted accounting principles (GAAP) and IFRS? Why or why not?

We believe that requiring disclosure of different reporting measurement attributes for certain financial assets within the scope of the proposed FSP would improve the quality and comparability of financial statements because instruments with similar economic characteristics may be accounted for under different measurement attributes.

In addition, we believe that to provide meaningful information to users and to be consistent with the Board's object to increase comparability of information about certain financial assets

that have related characteristics but have different reporting measurement attributes, the proposed FSP should not exclude financial assets measured at fair value with changes in fair value recognized through earnings. We believe that as currently written the FSP only addresses differences in measurement attributes between different asset classes and should be expanded to address different measurement attributes with the same asset class. We also believe that providing meaningful information to users would require reporting entities to maintain accounting records that would facilitate measuring financial assets at fair value with changes in fair value recognized in earnings and at an amount recognized under an incurred loss model consistent with Statement 114, *Accounting by Creditors for Impairment of a Loan*.

Do you agree that the proposed disclosures should not include financial assets measured at fair value in the statement of financial position with changes in fair value recognized through earnings? If not, would you propose including such financial assets within the scope of this proposed FSP? Should financial assets measured at the lower of cost or fair value (such as mortgage loans) be included within the scope of this proposed FSP? Why or why not?

We believe that the proposed disclosures should include financial assets measured at fair value with changes in fair value recognized in earnings. A reporting entity can elect the fair value option for most financial assets under Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Under Statement 115, *Accounting for Certain Investments in Debt and Equity Securities*, a reporting entity is not precluded from classifying a security as trading if it does not intend to sell in the near term or hold for only a short period of time. We believe that the proposed disclosures should extend to these financial assets to meet the stated objective of the FSP. Including financial assets measured at fair value with changes in fair value recognized in earnings within the scope might also provide more meaningful information and supplant some of the disclosures currently required by paragraphs 18 and 19 of Statement 159. We agree with the Board's proposal to include financial assets measured at the lower of cost or fair value in the scope of the FSP, but we do not believe that disclosure for these assets should be under an incurred loss model described in Statement 114. The incurred loss amount in disclosures under this proposed FSP for these assets should be the lower of their cost or fair value.

We believe that as currently written, the FSP only addresses differences in measurement attributes between different asset classes and should be expanded to address different measurement attributes with the same asset class. We also believe that providing meaningful information to users would require reporting entities to maintain accounting records that would facilitate measuring financial assets at fair value with changes in fair value recognized in earnings and at an amount recognized under an incurred loss model consistent with Statement 114.

Do you believe that requiring disclosures of the pro forma income from continuing operations (before taxes) for financial assets within the scope of this proposed FSP as if those financial assets were carried (a) at fair value with changes in fair value recognized through earnings and (b) at the incurred loss amount with changes recognized through earnings would improve financial reporting? Why or why not? Should the disclosure requirements described in the preceding sentence also be required for net income and shareholders' equity? Why or why not?

While we believe that the quantitative disclosures should facilitate the ability of users to make pro forma calculations for each of the financial assets listed in paragraphs 8 and 12 of the proposed FSP, we do not support the disclosures of single pro forma income from continuing operations amounts as described in the proposed FSP. Pro forma net earnings or income from continuing operations information is rarely required in other GAAP. Its use under FASB Statement 123, *Accounting for Stock-Based Compensation*, was eliminated by Statement 123 (revised 2005), *Share-based Payment*. The disclosure of one line item of pro forma information for securities within the scope of this FSP is of limited use because a change in measurement attribute may affect interest income and other line items as well as the line item where changes in fair value are recorded. Public entities can disclose pro forma information in their Management Discussion and Analysis in SEC filings.

Would including separate reconciliations of reported income from continuing operations (before taxes) to the proposed pro forma adjusted income from continuing operations (before taxes) under both a fair value basis and an incurred loss basis for financial assets within the scope of this proposed FSP be useful? Why or why not?

Because we do not support disclosures of single pro forma income from operations amounts for the reasons stated above, we do not believe that separate reconciliations of income from continuing operations under a fair value basis and incurred loss basis are useful. We do believe that quantitative line item disclosures for the financial assets noted in paragraphs 8 and 12 of the proposed FSP should provide information sufficient to calculate the effect of applying the different measurement attributes on income from continuing operations as reported in the financial statements. The columnar information presented in paragraph 10 on the values of the securities in the scope of the FSP at the date of the financial statements should allow a user to analyze changes in these values.

Do you believe that the provisions of this proposed FSP should be effective for interim and annual reporting periods ending after December 15, 2008? Why or why not? Do you believe that the disclosures in this proposed FSP should be provided on a comparative basis for subsequent periods after initial application of the proposed FSP? Why or why not?

We are concerned that preparers may not be able to prepare the required disclosures for periods ending after December 15, 2008 for timely inclusion in financial statements issued after this date. Some of the incurred loss information will require issuers to obtain information from third party servicers and otherwise gather information they previously did not gather in preparing financial statements and disclosures. Further, we observe that obtaining present value of expected future cash flows will be more difficult for investments such as municipal and corporate bonds and other securities that do not have an underlying cash flow stream.

The FSP indicates that it is effective for interim and annual reporting periods. Some of the Statement 107 disclosures are only applicable for annual reporting periods. Accordingly, we believe that the FSP should amend Statement 107 to indicate that the disclosures in paragraphs 15E-15I are applicable for interim and annual reporting periods consistent with this FSP.

We recommend requiring comparative disclosure for the items described in paragraph 10 of the proposed FSP so users can calculate the effect of applying the different measurement attributes as reported in the financial statements for interim and annual periods presented after initial application.

Are all of the disclosures in this proposed FSP operational based on the proposed effective date? Why or why not? Please be specific in your response.

As previously stated, we are concerned that preparers may not be able to prepare the required disclosures for periods ending after December 15, 2008 for timely inclusion in financial statements issued after this date. We also believe that disclosures should provide information sufficient for users to calculate the effect of applying the different measurement attributes on income from continuing operations as reported in the financial statements for each financial instrument category and line item in paragraphs 8 and 12 of the proposed FSP.

We believe that some of the disclosure requirements and examples could be improved. In paragraph 12, the FSP makes reference to the presentation of debt securities in Statement 115 by major security type, yet the FSP does not require loans to be reported by major category consistent with the requirement in SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. We believe that such disaggregated information should also be required for loans.

We believe that the disclosure requirement in paragraph 13(b) should be modified as follows; “the methodology ~~and used to estimate~~ the key inputs used to measure the incurred loss amount (such as estimated cash flows), including any estimates of costs to sell the financial asset.” We question why the FSP specifically decided to require estimates of the amount of cost to sell the financial asset, but not other inputs. We believe the Board should expand paragraph 13(b) to describe more specific inputs that require disclosure and provide examples.

The example disclosure in the appendix to the FSP is confusing. At least one of the lettered notes in the example is actually an instruction about the FSP. Note ‘a’ states that “... entities should only estimate incurred loss for each individual security or loan that would be recognized under Statement 114. An entity shall not also estimate an allowance for a pool of similar securities.” This guidance should be included in paragraph 11 if it is supposed to apply to all entities that must follow the FSP. For items b-f and h, the statements appear to simply repeat the reporting measurement attribute for the item and are not needed in the table. Alternatively, if the footnotes are intended to be included in the financial statement disclosures, we observe that in most situations additional information will be required.

Other comments

Paragraph 4 should include a discussion on the accounting for loans held-for-sale.

We appreciate the opportunity to comment on the proposed FSP and would be pleased to discuss our comments with the FASB staff. If you have any questions, please contact Mark K.

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Very truly yours,

/s/ Grant Thornton LLP