

From: Jeremy Calva [mailto:jcalvacpa@yahoo.com]
Sent: Wednesday, October 08, 2008 6:57 PM
To: Director - FASB
Subject: File Reference: Proposed FSP FAS 157-d



LETTER OF COMMENT NO.

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Dear Mr. Golden:

I appreciate the opportunity to comment on Proposed FSP FAS 157-d. As a licensed CPA and a Certified Treasury Professional I have performed investment accounting and established impairment procedures and testing at two multi-billion dollar organizations in addition to evaluating the accounting practices in place at multiple companies while in public accounting.

The example provided in the proposed guidance appears to have some short comings. In the example, "Entity A determines that the appropriate discount rate used to discount the contractual cash flows of its collateralized debt obligation security is 22 percent." The valuation today should not be made on contractual payment, but rather projected cashflows. One of the fundamental steps in performing the impairment testing is to project all cash flows including losses. If after running this analysis and reviewing the results it is apparent a loss, that is unrecovered, does in fact exist, the bond is other than temporarily impaired. If this is agreed upon, why would the projected cashflows not be used in determining fair value?

Applying a 22 percent discount factor to contractual payments that are not probable is not an appropriate starting point. If the starting point is flawed the fundamentally analysis will not be accurate. Applying a subjective discount factor based on contractual payments that are not expected allows for too much discretion and interpretation for what is reasonable. Adjusting the percentage for uncertainty higher only increases the risk of under valuing the security. If cashflows have losses included, the risk premium has already been factored into the analysis. Now it is simply a time value of money calculation.

Perhaps a more appropriate approach is providing net present value or net realizable value calculations of projected cash flows using an appropriate discount rate. The question is what is the appropriate discount rate? Once the timing, direction and magnitude of cashflows has been agreed upon, a discount factor should be used that is more consistent with proposed alternatives one or two below:

1. Assuming the cashflows include projected losses and the timing of each cashflow is correct, wouldn't new issue 30-mortgage rates be an appropriate discount rate? The cash flows are already risk adjusted with embedded losses and the final legal term of the cash flows would be shorter than a newly issued mortgage. The risk premium is already taken into consideration based on the cash losses within the cashflows.
2. An alternate approach that may closely match the liquidity premium associated with longer term verses short term cashflows would be to take the projected cashflows and assume funding costs to maintain the existing cash flows equivalent to the existing 30 year mortgage rate verses swap rates. This could be derived by comparing 30 year mortgage rates to the 30 year swap rate. For example if 30 year mortgage rates are at 5.75% and the 30 year swap rate is at 4.40% a spread of 1.35% exists. Applying this spread of 135 basis points to the swap or LIBOR curve and discounting each cashflow back to present value would provide a discounted cashflow valuation based on the timing of each cashflow.

I hope you find my feedback helpful in coming to an end solution. The methods described above build off of the impairment testing results and should make it easier for public accountants and regulators to evaluate prices based on fundamental financial analysis and remove much of the subjectivity that may lead to inconsistent application of the standard within the in financial services industry and the organizations that provide oversight.

Regards,

Jeremy R. Calva CPA, CTP