

From: Andrew Wang [mailto:Andrew.Wang@FENB-US.com]
Sent: Wednesday, October 08, 2008 8:08 PM
To: Director - FASB
Cc: Robert Sweeney
Subject: File Reference: Proposed FSP FAS 157-d



LETTER OF COMMENT NO.

43

Dear members of Financial Accounting Standards Board,

Regarding the Proposed FSP FAS 157-d, I have the following comments:

The reason that an asset requires Level 3 fair value measurement is that market fails to perform its price discovery function. Or specifically, the ability for the market to attract liquidity is weakened. When valuing an asset, the concept of cash flow discounted by required return is the fundamental spirit of modern financial theory. Therefore, assuming market price is correct, even under current market condition, the fire sale price can be attributed to higher required rate of return.

The components of the required return in the proposed FAS 157-d are risk-free rate, interest rate risk premium, credit risk(non-performance risk) premium and liquidity premium. The risk-free rate and interest rate risk premium are given factors which can be found in Treasury market, and banks which are subject to high level of supervision should be able to price the credit risk premium or the Credit Default Swap market can be relied upon for big corporations. This leaves us to the extremely high required premium on liquidity to come up with the market price. Therefore, the extremely volatile market price is actually the result of the mispricing of liquidity, which can be caused by a lot of irrational reasons and hinders the market's price discovery function. Further, liquidity condition varies from bank to bank, mandating a subjective liquidity premium input based on the market condition in the required rate of return can lead to a lot of unintended consequences.

Liquidity of the asset used to be thought as the bid/ask spread in the market. Therefore, stocks are considered to be quite liquid with the bid/ask spread low, so are T-Bill and Government guaranteed notes. I would **recommend the liquidity component to be based on the asset's normal bid/ask spread with some adjustments reflecting the market and the firm's specific liquidity position** rather than the arbitrary liquidity premium at 400bps. For that matter, a CPA can always argue the liquidity premium is indeed 2000bps, and how can the modeler/preparer justify the liquidity premium?

Under normal market condition, the "Fair Value" can be relied on the market's price discovery mechanism; however, at the time when almost every single market fails, it's important that FAS 157 be amended to reflect the asset's true Fair Value not the distressed fire sale price in the market to cause more financially sound institutions fail.

Regards,
Andrew Wang, CFA & FRM
Investment Manager
Far East National Bank