

From: Michael Coltharp [mailto:mjcoltharp@yahoo.com]

Sent: Sunday, October 12, 2008 10:24 AM

To: Director - FASB; rule-comments@sec.gov; chairmanoffice@sec.gov

**Subject:** FSP 157-3 misses the mark

I was disappointed, but not surprised, to see that FSP 157-3 missed the mark. After dealing extensively with technical accountants over the past five years on multiple technical issues, I have concluded that the accounting profession is losing relevance as it seeks to strictly follow

rules rather than present meaningful financial information to the users of the financial statements.

FSP 157-3 states "Even in times of market dislocation, it is not appropriate to conclude that all market activity represents forced liquidations or distressed sales. However, it is also not appropriate to automatically conclude that any transaction price is determinative of fair value." While this <u>may</u> true statement, the FSP fails to logically follow-up on the statement. If the assertion presented here that it is not appropriate to <u>automatically</u> conclude that all market activity represents forced liquidations or distressed sales, the inverse, which is that the values observed in a market that is not inactive represent the fair value, or exit price, to be used in financial statement preparation, should equally not represent an automatic conclusion. The FSP provides for departure when an inactive market exists.

Using a dislocated active market as a primary source for the exit value provides no benefit to users of the financial statement, and actually harms investors and the society as a whole, which is evident by the past few weeks of market turmoil. A going concern entity that is not required to liquidate its holdings should not be required to value those holdings at a distressed value. A distressed value can be determined if the expected cash flows discounted at an appropriate rate significantly deviates from the market values, or when the expected yield/return on the assets using the market price results in returns significantly greater than historical or reasonable returns for similar assets.

When a dislocated market exits, such as the current securities market, few, if any companies would willingly sell the assets. Sales in an active could be viewed as distressed, or at a minimum, involve factors beyond the economic considerations of the specific asset sold. Use of such values cause companies that would not sell to reflect losses and does not provide consistent financial reporting or improve the quality of the information in financial statements.

The FSP, like the exposure draft, continues to focus on an inactive market. The FSP does not adequately address the issue of valuation in a dislocated active market. Under the FSP, there is no practical way to deviate from a dislocated active market. In theory, level 3 inputs could be used if analysis of individual market transactions could be contrued as forced or distressed. There is no likelihood of effectively providing such support that would be acceptable to auditors and would be cost prohibitive to attempt.

The result of the FSP is no change from FAS 157, and the continuation of reporting fair values in financial statements that do not provide useful information to users and add to the hype and irrational reaction in the current market.

**Solution**: I understand the concern about allowing for a departure from a current exit price when an active market exits. Such a provision would be difficult to consistently apply and could be manipulated when not appropriate. The solution would be to allow the FASB or/or SEC to provide guidance when an active market becomes dislocated and valuation inputs other than the active market can be used. Such leadership by the SEC/FASB would protect the integrity of the financial reporting standards and also allow the profession to produce meaningful financial statements and information to the public.

Michael Coltharp mjcoltharp@yahoo.com 4309 Jaguar Loop Santa Fe, NM 87507 720,350.9793