



## Investors Technical Advisory Committee

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 | Phone: 203 956-5311 Fax: 203 849-9714

Via Email



LETTER OF COMMENT NO. 54

January 15, 2009

Russell G. Golden  
FASB Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116,  
Norwalk, CT 06856-5116

Re: File Reference: Proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107*

Dear Mr. Golden:

I am writing on behalf of the Investors Technical Advisory Committee ("ITAC"). The purpose of the ITAC is to provide independent technical advice, from the investors' perspective, to the Financial Accounting Standards Board ("FASB") and its staff. The ITAC is comprised of individuals from the investment profession possessing strong technical accounting knowledge.<sup>1</sup>

The ITAC appreciates the opportunity to comment on the December 24, 2008 Proposed FASB Staff Position FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107* ("FSP"). We support the FASB's efforts to improve transparency related to the valuation of certain financial assets.

---

<sup>1</sup> This letter represents the views of the Investors Technical Advisory Committee (ITAC) and does not necessarily represent the views of its individual members, the organizations in which they are employed, or the views of the Financial Accounting Standards Board (FASB) or its staff. For more information about the ITAC, including a list of the current members and the organizations in which they are employed, see [http://www.fasb.org/investors\\_technical\\_advisory\\_committee/](http://www.fasb.org/investors_technical_advisory_committee/).

In our view, the fair value disclosures in the proposed FSP would provide investors with more transparency and better information for forecasting future losses. Providing incremental disclosure of the different reporting measurement attributes may help some users, especially given the current market volatility. Further, the proposed fair value disclosures move toward our previously stated belief that “it is especially critical that fair value information be available to capital providers and other users of financial statements in periods of market turmoil accompanied by liquidity crunches such as we’re now experiencing.”<sup>2</sup> We also would like to reiterate our strong opinion that “**the [FASB and International Accounting Standards Board (“IASB”)] should require fair value as the only measurement method for financial instruments.**”<sup>3</sup>

Admittedly, the issue of whether incurred loss amounts should be displayed for *any* instruments has been a contentious issue within the ITAC. While we reiterate our view that fair value measures are the most relevant form of information for investors and should be the *exclusive* measure of financial instruments in the primary financial statements, our membership expressed a wide range of views regarding the value of requiring companies to disclose incurred loss values as a supplemental measure within the footnotes.

Several of our members have pointed to perceived short-comings in incurred-loss measures and worry that making such disclosures mandatory could mislead financial statement users and have the undesired effect of legitimizing such a measure as a comprehensive and fundamentally-sound form of valuation. Given that at least some of our members have indicated that they would find incurred loss values at least marginally useful, we would support their disclosure because this would suggest that at least some financial statement users would use such information if it were furnished. However, to acknowledge the validity of the concerns of some of our members and to reduce the potential for these disclosures to mislead unsophisticated financial statement users, we believe the Board should require companies to include mandatory disclosures to define incurred-loss in this disclosure, clearly disclose the elements that this measure ignores relative to fair value, and explain why the incurred loss amount differs from fair value.

---

<sup>2</sup> Letter from Rebecca McEnally, Member, ITAC, to Mr. Robert Herz, Chairman, FASB & Sir David Tweedie, Chairman, International Accounting Standards Board (May 23, 2008), [http://www.fasb.org/investors\\_technical\\_advisory\\_committee/itac\\_05-23-08.pdf](http://www.fasb.org/investors_technical_advisory_committee/itac_05-23-08.pdf)

<sup>3</sup> Letter from Michael Moran, Member, ITAC, to Robert H. Herz, Chairman, FASB & Sir David Tweedie, Chairman, International Accounting Standards Board 2 (Sept. 17, 2008), <http://www.iasb.org/NR/rdonlyres/A76C7FF2-E5F0-4585-8322-E7C44539E025/0/CL29.pdf>

The following are our responses to the Board's specific questions raised in the proposal:

1. *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?*

Yes, we are supportive of the proposed disclosures. They will aid in making comparisons among entities and provide a better understanding of the impacts of the current mixed-attribute environment. We also applaud the FASB for its decision to add to its agenda a joint project with the IASB to address the complexity in existing reporting for financial instruments. We look to that project to undertake and conclude on what we believe are essential and long-overdue improvements and to eliminate the many accounting differences across financial instruments.

Consistent with the views of most U.S. investors, financial analysts, auditors, and many other parties, we continue to believe "that financial reporting would be substantially improved if fair value was the *required* measurement approach for *all* financial instruments reported by financial institutions as well as nonfinancial services enterprises."<sup>4</sup> We would urge the FASB and IASB to give that joint project the highest priority, given the recent challenges observed and the vast differences among instruments and accounting standards. We also continue to believe that a required fair value measurement approach for all financial instruments should be complemented with "performance reporting as well as the development of a comprehensive disclosure framework that would underpin the use of fair value measurement."<sup>5</sup>

2. *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?*

---

<sup>4</sup> Letter from Jeff Mahoney, Co-Chair, ITAC, to Ms. Florence E. Harmon, Acting Secretary, Securities and Exchange Commission 2 (Nov. 13, 2008), [http://www.fasb.org/investors\\_technical\\_advisory\\_committee/11-13-08\\_Comment\\_Letter\\_SEC.pdf](http://www.fasb.org/investors_technical_advisory_committee/11-13-08_Comment_Letter_SEC.pdf).

<sup>5</sup> Moran, *supra* note 3, at 3.

We recommend including such financial assets within the scope of the proposed FSP. We believe investors benefit if they can reference in one place comprehensive information on all financial assets. Financial statement users can then perform more comprehensive analysis of the entity's portfolio without the added complexity of searching through and incorporating other areas of the financial statements and footnotes.

We continue to believe that fair value is the most useful basis for financial instruments, and believe the FASB and IASB should require all financial instruments to be measured at fair value in the primary financial statements. However, given frequent and vast investor confusion arising from the use of different accounting rules, which became especially evident and more pronounced during the current volatile market conditions, we believe that expanding the FSP to provide these reporting measurement attributes, on a consistent basis, for all financial assets would provide users with the ability to make more meaningful and complete comparisons between the as reported/fair value and the incurred loss amounts on a consistent basis among reported entities – regardless of their particular accounting elections.

*3. 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?*

We support the proposed pro forma earnings disclosures as if the financial assets were carried at fair value with changes in fair value recognized through earnings. Given our stated support for fair value accounting for all financial instruments, we believe that the paragraph 14a disclosures would provide valuable and transparent information to financial statement users of the earnings impact from the financial assets within the proposed FSP's scope. As the different measurement attributes will result in different earnings impacts from the assets (such as interest income or provision for doubtful accounts), disclosing the impact on income would provide important analytical information. However, we cannot provide support for the disclosures proposed in paragraph 14b.

It is unclear to us how or why the paragraph 14b pro forma information would be useful to investors. Moreover, given our strong support of fair value as the most useful and transparent accounting basis, we have some concern that the inclusion of an incurred loss earnings metric would potentially confuse users by providing lower-quality pro forma information, which we believe would have limited merits in financial analysis. Consistent with the spirit of paragraph 13c, rather than new incurred loss disclosures it would be useful to require disclosure of (1) the reasons why the fair values of financial instruments are not consistent with management's expected losses based on fact patterns and management assumptions and (2) the related fact patterns and assumptions.

We believe that the disclosure requirements should also be required on an after-tax basis for net income and shareholders' equity to enable more meaningful comparisons, as analyses and valuations are commonly performed on an after-tax basis. Given the complexities of many tax provision calculations (foreign taxes aspects, valuation allowances, etc.) it will often be difficult, if not impossible, to make a proper estimate. Although we appreciate the incremental difficulties of providing the disclosures on an after-tax basis, we believe it would significantly increase the value and usefulness of the information to users that would outweigh the costs.

*4. 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?*

We are unsure as to what incremental information would be provided in a reconciliation versus the disclosure of the pro forma information. As stated above in our response to Issue 3, we would not support a pro forma income disclosure or reconciliation based on the incurred loss information, as we are uncertain as to how or why that information would be useful to investors and believe it would potentially confuse users with lower-quality information than the comparable fair value disclosures. However, we believe entities should disclose the key assumptions underlying the incurred loss amounts and the sensitivity to these assumptions.<sup>6</sup> Disclosure of an expected loss figure (accompanied by appropriate sensitivity analysis) would provide useful information for investors.

*5. 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?*

Yes, we agree with the proposed FSP's effective date. We believe the disclosures would be very beneficial in allowing financial statement users to understand the variety of choices and their consequential effects on the income statements. It is critically important considering the current market environment and considering recent amendments made to financial instruments accounting by both the FASB and IASB, which further exacerbated the challenges. Therefore, we believe the proposed disclosures should be included in financial statements at the earliest feasible date. We also believe that the usefulness of the disclosures would be increased if provided on a comparative basis in periods subsequent to initial application.

One of the key recommendations in the SEC's Congressionally-mandated fair value accounting study was that "accounting standards should continue to be established to meet the needs of investors." The SEC staff supported this conclusion with the following points:

- Investors, and most others, agree that financial reporting's primary purpose is to meet the information needs of investors.
- Most appear to agree that fair value measurements provide useful information to investors, meeting their information needs.
- Beyond meeting the information needs of investors, general-purpose financial reporting has secondary uses that may be of additional utility to others, such as prudential oversight.
- General-purpose financial reporting should not be revised to meet the needs of other parties if doing so would compromise the needs of investors.

---

<sup>6</sup> See Letter from Mike Gyure, Member, ITAC, to Mr. Robert Herz, Chairman, FASB 3 (Dec. 11, 2007), [http://www.fasb.org/investors\\_technical\\_advisory\\_committee/ITACDisclosureProposal.pdf](http://www.fasb.org/investors_technical_advisory_committee/ITACDisclosureProposal.pdf).

January 15, 2009  
Page 7 of 7

We bring up these conclusions from the SEC study because we believe that significant potential resistance related to a project that would require fair value measure for all financial instruments would relate to the issue of measurement for regulatory capital purposes.

The FASB and IASB have no control over how regulators choose to measure financial instruments for regulatory capital purposes. Since we believe that the inclusion of any non-fair-value measures in the financial statements is a disservice to investors and all financial instruments should be measured at fair value, we would suggest that regulators separately, such as in bank call reports, have reporting and use of non-fair-value measures if regulators would find such alternative values useful for regulatory capital and safety and soundness purposes.

We want to reiterate the SEC's fair value study point that oversight authorities, such as bank regulators, are not the primary audience of U.S. GAAP financial statements. To this end, we believe regulatory requirements and measurements should be disclosed in financial statement footnotes in the appropriate context, but should not impose on the quality of the accounting, presentation or reporting of results to investors.

We appreciate the opportunity to share with you our views on the proposed FSP. Should you have any questions or would like to further discuss any of our comments in more detail, please contact Janet Pegg at 646-512-5089 or [jpegg@encimaglobal.com](mailto:jpegg@encimaglobal.com)

Sincerely,

Investors Technical Advisory Committee

By:

/s/ Janet Pegg

Janet Pegg  
Member  
Investors Technical Advisory Committee

cc: Sir David Tweedie, Chairman, IASB