



January 16, 2009

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

File Reference: Proposed FSP FAS 107-a

Dear Mr. Golden:

We appreciate the opportunity to comment on the Exposure Draft of the Proposed FASB Staff Position, Disclosures about Fair Value of Financial Instruments: An Amendment of FASB Statement No. 107 (the "Exposure Draft"). Huron Consulting Group helps clients address complex challenges that arise in litigation, disputes and investigations. Huron provides services to a wide variety of organizations, including Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations, and the law firms that represent these various organizations.

While we understand the Board's objective as stated in paragraph 1 of the Exposure Draft, we do not believe the Board should finalize the proposed FSP. We believe the Board should focus its efforts on improving the guidance for the recognition and measurement of impairment losses rather than mandating additional disclosures that we believe do little to address the basic concerns of users or preparers with the existing accounting models for recognition and impairment. Further, we oppose the issuance of a final standard because of what we believe has been inadequate due process for such a significant change. The Board added this project to its agenda December 15, 2008 and discussed it at a special Board meeting that day. The Board did not provide notice to constituents in advance of its discussion that it had added the project to its agenda and it issued the Exposure Draft late in the day on Christmas Eve when many constituents were out of the office for the holidays.

If the Board decides to issue the Exposure Draft as a final FSP, we believe it should address the following issues before it does so.

Effective Date

We believe the Board should delay the effective date for at least six months. By the time the Board receives and considers comments from constituents and redeliberates the

550 West Van Buren Street Chicago Illinois 60607 312-583-8700 312-583-8701 conclusions in the Exposure Draft, we believe it is unlikely it will issue a final standard before the end of January and we question whether even that timing is realistic. Because accelerated filers will have to issue their financial statements by early March 2009 to be timely, we believe more than a few companies will be unable to obtain the data necessary to provide the required disclosures and will be forced to file for extensions.

There likely will be circumstances where the amortized cost of a debt security will be the same as the amount at which the company would carry the debt security if it followed the incurred loss model, such as when the company has not recognized an other-thantemporary impairment on the debt security. In those situations, we don't believe the application of the proposed FSP will be difficult. However, we are concerned there will be many situations where a company has written-down the carrying amount of a debt security because it determined it was probable it would not recover all of the payments it was entitled to receive. In those circumstances, the company would need to obtain the cash flows expected at the time it recognized the impairment and then recompute the amount it would have recognized under FASB Statement No. 5, Accounting for Contingencies ("SFAS 5"), or FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114"). The company will also have to determine whether it could have subsequently reversed any portion of the original reserve. We are concerned it will take companies more than the few weeks they will have to obtain the necessary information and have time for the independent auditor to perform whatever testing of the disclosure (and the controls over the process used to compile the data) it deems necessary.

Further, we believe it will take companies a significant amount of time to estimate the pro forma earnings impact. While the Exposure Draft states that comparative disclosures are not required in the year or interim period of initial application, a company will have to compute the corresponding amounts at the beginning of the year to determine the pro forma impact on earnings. This will make it even more difficult for companies to meet their accelerated reporting deadlines.

<u>Scope</u>

Given the objective outlined in paragraph 1 of the Exposure Draft, we do not understand why the Board did not include within the scope of the proposed FSP debt securities classified as trading or loans and debt securities for which a company has elected the fair value option. Those loans and securities have similar economic characteristics to, but different measurement attributes than, the loans and securities that the FASB included. Although fair value is the most relevant attribute for an asset a company intends to sell in the near term, a company applying FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), may classify a debt security as trading even though they do not intend to sell the security in the near term. Accordingly, disclosing the incurred loss amount for debt securities classified as trading may be appropriate.

The first table in Example 4 in the Exposure Draft includes a line item for "Loans and lease receivables." Paragraph 8(d) of FASB Statement No. 107, Disclosures about Fair

Value of Financial Instruments ("SFAS 107"), excludes lease contracts from the standard's scope. It is not clear if the Board is amending SFAS 107's scope to require fair value disclosures for lease receivables, but if so, we believe companies will need additional time to comply with the required disclosure. Because SFAS 107 did not require companies to estimate the fair value of lease contracts, it is unlikely companies will have the necessary information.

Other

We believe the Board should modify paragraph 11 of the Exposure Draft to make it clear that the need to measure an incurred loss amount is limited to those debt securities for which a company has recognized an other-than-temporary impairment loss because of probable credit losses. In all other circumstances, we believe the incurred loss amount should equal the amortized cost of the debt security. We believe the following change would make it clear that a company would not need to compute an incurred loss amount just because the fair value of a debt security is less than its amortized cost:

The incurred loss amount represents the reported or pro forma carrying amount of the investment under an incurred loss model. For loans and receivables, an entity shall disclose the reported carrying amount based on their existing accounting policies under Statement 114 and Statement 5. For debt securities classified as held-to-maturity and available-for-sale for which an entity has recognized an impairment loss because it was probable it would not be able to collect all amounts due according the contractual terms of the security, an entity shall measure the incurred loss amount based on the present value of expected future cash flows discounted at the security's effective interest rate (consistent with Statement 114).

In addition, we believe the requirement in paragraph 11 of the Exposure Draft that a company measure the incurred loss amount on a debt security based on the guidance in SFAS 114 is inconsistent with SFAS 114's scope. We believe a company should apply the guidance in SFAS 5 to determine the incurred loss amount on an asset-backed security when the collateral is a pool of home equity loans. If the company owned the pool of home equity loans directly, those loans would not be within SFAS 114's scope unless restructured in a troubled debt restructuring. If we understand the Board's objective for these disclosures correctly, we do not believe the pro forma disclosure should require a company to apply a different method for measuring the probable loss on a security than it would apply if it held the underlying loans directly. Doing so will not enhance comparability.

Paragraph 14 of SFAS 107 provides an exemption to the requirement to disclose fair values if a company concludes it is not practicable for it to estimate the fair value of a financial instrument or class of financial instrument. It is not clear to us whether the disclosures required by the proposed FSP override the practicability exemption. We suggest the Board clarify its intent in this regard. If the Board intends to override the

practicability exemption, that is yet one more reason why we believe it should defer the effective date of the final FSP.

Finally, we believe the Board should clarify whether it intends the guidance on effective date and transition in paragraph 16 of the Exposure Draft to override the guidance on fair value disclosures in interim periods in paragraph 86 of SFAS 107. One could read the wording in the Exposure Draft as overriding the guidance in paragraph 86 of SFAS 107 and requiring a company to provide the proposed disclosures even if it issues summarized financial information in interim periods. If that is not the Board's intent, we suggest it modify paragraph 16 of the Exposure Draft as follows:

This FSP shall be effective for interim and annual reporting periods ending after December 15, 2008, as well as interim periods after that date in which an entity issues a complete set of financial statements. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial application or in subsequent periods.

We do not believe the Board should override the guidance in paragraph 86 of SFAS 107.

We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct any questions or comments to Jeff Ellis at 312-880-3019.

Sincerely,

/s/ Jeffrey H. Ellis

Jeffrey H. Ellis Managing Director

cc: Sir David Tweedie, Chairman, International Accounting Standards Board