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Mr. Lawrence W. Smith
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Financial Accounting Standards Board
Technical Director – File Reference No. 1510-100
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LETTER OF COMMENT NO. 33

April 13, 2007

## Invitation to Comment on Valuation Guidance for Financial Reporting

Dear Mr. Smith,

UBS appreciates the opportunity to comment on the Invitation to Comment, *Valuation Guidance for Financial Reporting* (the "Invitation to Comment"). UBS is a global financial services provider and in that capacity we deal with complex valuation issues (i.e., the valuation of derivative financial instruments, private equity securities, and other financial instruments) on a daily basis. We manage, use, and develop sophisticated and highly complex valuation techniques. We consider ourselves to be valuation experts.

We support the Board's initiative to open debate on the issue of valuation guidance for financial reporting. In response to the Board's request for comments, we have the following key messages:

**Statement 157**—Statement 157, Fair Value Measurements, is a principles-based standard that provides a significant amount of guidance for measuring fair value. The Board and its staff developed Statement 157 with the help of valuation experts. We strongly urge the Board to defer taking any action on the issue of valuation guidance for financial reporting until Statement 157 operates in practice for a sufficient time to demonstrate its effectiveness. Additionally, we believe that this issue should be considered jointly with the International Accounting Standards Board after it has issued its own equivalent guidance and that guidance has a sufficient period of time to operate in practice.

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Complexity—We applaud the Board for issuing a principles-based measurement standard; also, we are highly supportive of Chairman Herz's call to reduce complexity in financial reporting. We have concluded that the establishment of another standard setting body (even one subject to the FASB's oversight) directly conflicts with the objective of reducing complexity in financial reporting. Such a body (even if established with a limited-life mandate) would become another source of rules-based guidance. We have reviewed the list of valuation issues identified by the Appraisal Issues Task Force prepared at the request of the FASB staff and expect that this list would only be the start of such rules-based guidance. We expect that preparers, external valuation experts, and auditors would use that body to resolve valuation issues at an increasingly detailed level. We expect that any guidance issued by such a body would breed more guidance (like derivatives, transfers of financial assets, or stock-based compensation). Such detailed guidance would imply a level of precision in financial reporting that is not achievable. Such guidance would effectively supersede Statement 157's principles. We encourage the Board to resist establishing such a group before Statement 157 has been given a fair chance to operate in practice.

Recommended Course of Action—As noted above, we recommend that the Board give Statement 157 a fair chance to operate in practice. After a sufficient period of time, we suggest that the Board establish an international blue-ribbon committee that would study how Statement 157 has been applied in practice and would make recommendations based on that study to the Board. A principles-based standard always will be subject to different interpretations; some diversity in practice must necessarily exist under a principles-based standard. The committee will need to assess whether the diversity in practice under Statement 157 is within acceptable levels. Based on the committee's findings, the Board may conclude that Statement 157's principles should be amended. As noted previously, we believe that the committee also should assess practice under the IASB's eventual fair value measurement guidance; assuming that guidance is similar to Statement 157, the FASB and IASB should assess jointly the committee's findings and determine an appropriate response.

In addition to the key messages above, we have responded to the detailed questions asked in the Invitation to Comment (see Appendix of this letter). We hope that you have found our comments to be helpful. If you would like to discuss any comments that we have made, please do not hesitate to contact John Gallagher at 203-719-4212 or Will Widdowson at +41 44-234-5565.

Regards,

**UBS AG** 

John Gallagher Managing Director Accounting Policies and Support

Will Widdowson

Member of the Group Managing Board

Head Group Accounting Policy

#### **APPENDIX**

#### **Need for Valuation Guidance**

### **Ouestion 1**

Is there a need for valuation guidance specifically for financial reporting?

No, Statement 157 is a principles-based standard that provides significant guidance for measuring fair value. At this time, we believe that Statement 157's principles provide adequate and sufficient guidance to deal with all valuation issues. We strongly recommend that Statement 157 be given a fair chance to operate in practice before determining whether additional valuation guidance is needed.

### Question 1(a)

Should valuation guidance include conceptual valuation guidance, detailed implementation guidance, or a combination of both?

Given the form of Statement 157, we do not understand why this question has been asked. Valuation guidance should be no more detailed than Statement 157. Detailed valuation guidance will boil down to bright-lines and other rules that disregard important economic characteristics of a particular asset or liability.

#### Question 1(b)

What should be the duration of any valuation-guidance-setting activities?

As described in the main body of our letter, a blue-ribbon committee should be established to study how Statement 157 has been applied in practice and provide its findings/recommendations to the Board who will determine the appropriate course of action. Under no circumstance should a separate valuation standard setter be established.

# Level of Participation by Existing Appraisal Organizations

#### **Question 2**

What level of participation should existing appraisal organizations have in establishing valuation guidance for financial reporting?

Valuation experts should be included in the blue-ribbon committee that studies how Statement 157 has been applied in practice. Appraisal organizations also could provide valuation guidance that could serve as best practice models for particular valuation issues; however, such guidance would be non-authoritative.

## **Process for Issuing Valuation Guidance**

#### **Ouestion 3**

What process should be used for issuing valuation guidance for financial reporting?

As previously discussed, if based on the blue-ribbon committee's findings, the Board determines that an amendment of Statement 157 is necessary, then the Board should follow established FASB due-process procedures for such an amendment.

## International Convergence

#### **Ouestion 4**

Should the process of valuation guidance be on an international or national level?

The blue-ribbon committee should be international in nature, study both Statement 157 and the eventual IASB fair value measurement standard, and provide its findings/recommendations to the Boards. Any subsequent work by the FASB and IASB on valuation guidance should be performed jointly.

#### Other Potential Issues

- a. Who should grant authority to issue the valuation guidance?
- b. What due process procedures should the standard setter follow in issuing valuation guidance?
- c. How should any other organization that issues valuation guidance be funded?

We believe that the SEC has already granted such authority to the FASB when it formally recognized the FASB's work product as generally accepted pursuant to Section 108 of the Sarbanes-Oxley Act of 2002. The FASB is responsible for establishing and defining measurement bases to be used in financial reporting; therefore, it is responsible for all authoritative guidance related to those measurement bases. Accordingly, any valuation guidance should be subject to the established FASB due process. We do not support any organization issuing authoritative valuation guidance other than the FASB and the IASB, which currently have funding mechanisms in place.