



BNP PARIBAS



LETTER OF COMMENT NO. *256*

April 1, 2009

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06865-5116, U.S.A



LETTER OF COMMENT NO. *295*

Comments on

- **Proposed FASB Staff Position FAS 157-e: *Determining Whether a Market Is Not Active and a Transaction is Not Distressed***
- **Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b: *Recognition and Presentation of Other-Than-Temporary Impairments***

Dear Mr. Golden,

We are pleased to provide our comments on the above proposed FSPs and EITF. We see these proposals as good first steps towards a more in depth reflection on the accounting for financial instruments as a whole, including, for example, the relevance of the use of fair value when measuring financial instruments that are not traded on an active market.

Proposed FASB Staff Position 157-e

The FSP 157-e and the document issued by the IASB's Expert Advisory Panel both stress the importance of using judgement and considering all available information, including transaction prices in distressed markets.

Despite these two documents, however, pressure has remained high on some preparers to use last available price information to measure fair value, leading them to a different measurement than they would have reached had professional judgment been used.

The proposed FSP 157-e puts greater emphasis on the exercise of judgment in the fair value measurement process, and we believe the proposal laid out in the second step of the proposed FSP 157-e provides for a better equilibrium between the use of judgement and the reliance on external pricing information.

Indeed it is sometimes virtually impossible to provide evidence that a transaction is distressed when a market is inactive, simply because the inactivity of the market makes it difficult to prove that a price resulting from a transaction is abnormal in comparison to other transactions between willing buyers and sellers. In that respect the proposed FSP 157-e provides a logical and efficient solution for measuring fair value when a market is distressed.

From our point of view, the proposed approach in FSP 157-e addresses this problem by emphasising that judgement should be given the highest level of authority when measuring the fair value of a financial instrument in an inactive market.

However, we would like the Board to consider that some may read paragraph 15 conservatively, arguing that all inputs to the valuation technique should reflect market conditions at the measurement date.

Our understanding of the proposal is that preparers should use current market information to determine the value of inputs that are related to the intrinsic economic characteristics of the financial instruments. These include, for example, the risk free interest rate, delinquency rates, or exchange rates. However, the value of pricing inputs that are not based on economic characteristics of the instrument, such as liquidity premiums, should be determined and integrated in to the model by making an assessment of what would be observed in a nondistressed transaction, which is by definition not the case at the measurement date.

We believe that the text could be enhanced by clarifying this ambiguity.

Proposed FASB Staff Position FAS115-a, FAS124-a and EITF 99-20-b

We agree in principle with the proposed impairment model as it is fully in line with our business model. Indeed, the proposed approach is consistent with a fundamental credit-analysis view, regardless of the form taken by the financial asset. The approach would be beneficial because it differentiates between fair value changes that are attributable to fluctuations in liquidity premiums associated with distressed markets, from those that are attributable to a credit component.

We note that the European Commission has requested that the IASB develop an impairment model, based on the same principles, for Available For Sale financial instruments.

We encourage the FASB to adopt the FSPs (115-a, 124-a and 157-e) and EITF 99-20-b, and to foster a dialogue with the IASB in order to encourage the propagation of these accounting principles to IFRS.

We think that such a joint movement would provide additional clarity, relieve pressure on preparers, and avoid a further divergence between US GAAP and IFRS.

Yours Sincerely,

Gérard Gil

Deputy Chief Financial Officer