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DUFF&PHELPS

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LETTER OF COMMENT NO. 36

Mr. Harvey J. Goldschmid Mr. Hans Hoogervorst Co-Chairs Financial Crisis Advisory Group c/o Mr. Adam Van Eperen Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

File Reference: Financial Crisis Advisory Group (FCAG) Response to Questions

Duff & Phelps Corporation (NYSE: DUF) appreciates the opportunity to provide our comments to questions posed by the Financial Crisis Advisory Group. As a leading global independent financial advisory firm, a key advisor to clients struggling with global valuation issues and a developer of pragmatic solutions to the fair value debate, we provide a unique perspective in the practical application of valuation related principles both under United States Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS). Working with numerous clients around the globe we have experience validating the valuation assessments of thousands of illiquid securities on a regular basis.

We would be pleased to further discuss our comments with the Group and staff. Please direct any questions to David Larsen at (415) 693-5330, or Paul Barnes at (215) 430-6025.

Sincerely,

/s/Paul Barnes
Paul Barnes
Managing Director
Office of Professional Practice

/s/David L. Larsen
David L. Larsen, CPA
Managing Director

Responses to FCAG Questions

Duff and Phelps' responses to the questions below are provided from the perspective of an advisor to numerous companies around the globe who seek our opinion and support in dealing with valuation and transaction related matters.

1. From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

In evaluating the contributing factors to the financial crisis, it is apparent that risk policy and models did not adequately take into account the potential for counter-party default risk, liquid markets becoming illiquid, and default rates dramatically changing. Therefore, many financial firms extended themselves beyond what was prudent. In addition, risk models may have become overly complex, were not updated on a consistent or timely basis to adapt to the changing environment, and may not have been independently validated. Application and more likely misapplication of fair value reporting and disclosure requirements, especially during this time of financial crisis, may have exacerbated the crisis.

As markets became illiquid and as assets decreased in value, the financial reporting system captured and reported such changes which some interpreted as being precipitated by the fair value requirements themselves and thus "blamed the messenger". We differentiate between the application of fair value principles and the principles themselves. The misapplication of fair value principles (more fully discussed below) by certain constituents, may have aggravated the situation because of a demonstrated bias towards using the "last observable transaction price" to estimate fair value. This continues to occur even though the IASB Experts Panel Paper and FSP FAS 157-3 clearly articulated that observable prices may need significant adjustment. Proposed FSP FAS 157-e should provide additional support for using judgment in identifying orderly transaction pricing rather than blindly accepting observable transaction data from markets that are not active.

2. If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote

disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

Prudential regulators must determine if IFRS or US GAAP provide the proper basis for regulation. As Chairman Bernanke of the US Federal Reserve stated on March 10, 2009 at the Council on Foreign Relations, Washington, D.C.:

Because banks typically find raising capital to be difficult in economic downturns or periods of financial stress, their best means of boosting their regulatory capital ratios during difficult periods may be to reduce new lending, perhaps more so than is justified by the credit environment. We should review capital regulations to ensure that they are appropriately forward-looking, and that capital is allowed to serve its intended role as a buffer--one built up during good times and drawn down during bad times in a manner consistent with safety and soundness.

The IFRS and US GAAP financial reporting systems do not necessarily provide a basis for easing and strengthening loan provisions through cycles as their intended purpose is to meet the needs of investors, not prudential regulators. Therefore prudential regulators should determine what actions are required based on the phase in the cycle and provide appropriate regulation independent of any US GAAP or IFRS requirements. Expanded disclosures, such as structured footnote disclosures about the assumptions, techniques and measurement basis used in valuing the instruments for prudential capital requirements purposes, as well as other relevant information would be helpful.

3. Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitizations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

We agree that inconsistent reporting and disclosure of off-balance sheet items and limited recognition of counterparty risks from Credit Default Swaps and other derivatives may have exacerbated the financial crisis. In addition, the misapplication of fair value accounting because of a lack of understanding in applying these principles by some (rather than the principle itself) may also have been a contributing factor to a lack of confidence, although not necessarily a major factor.

In general, we believe improvement is needed in the application of fair value principles supplanted with appropriate additional disclosures allowing users to understand the assumptions used in estimates. Best practices are evolving to include the use of a third-party valuation advisor as part of management's control structure to establish fair value estimates of both on- and off-balance sheet instruments. Our response to FSP 157-e provides further highlights of this issue.

4. Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

Based on press accounts, it appears that the general public believes all financial institution assets are recorded at fair value. Based on the December 30, 2008 SEC Mark-to-Market Study, it is clear that less than half of the assets for the 30 institutions in their study are recorded at fair value. The mixed attribute model is therefore not well understood or communicated.

The current mixed attribute model is complex. Given the concern with "fair value" and its application which has been articulated by many during the crisis, moving to a full fair value model may be difficult in the short term. Whether moving fully to a fair value model or simplifying the mixed attribute model, the application of the fair value concept in practice may need to be revisited. While the principles in SFAS 157 are fairly clear, generally the implementation has been conflicting. We are happy to provide real world examples of the inconsistent application of the current principles, should the Group deem it helpful.

5. What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

The criteria for determining an "emergency" in the context of accounting standards would include abrupt and/or extreme market dislocation resulting from unanticipated

effects of financial reporting standards on the backdrop of significant diversity in applying those standards in practice. Otherwise, existing due process procedures should continue to be followed.

Even though it has been demonstrated that under "emergency" conditions standard setters can react quickly, one can contend that a rapid turnaround, while very responsive, may not be the optimal time frame to effectively consider and resolve an issue. (For example, FASB's issuance of FSP FAS 157-3 took approximately 10 days from start to finish, including public comment time. Proposed FSP FAS 157-e is expected to be completed within 15 days. However given the number of comments with diverging opinions submitted to FASB as of this writing, it would appear difficult to consider and conclude in a compressed timeframe.)

6. Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organizations? If so, which issues and why, and which organizations?

As noted above, prudential regulation should be a matter left for the regulators. Regulators should not lobby for changes in accounting standards that ostensibly make the job of regulation easier. Regulators can modify criteria based on given economic circumstances and should not be looking for accounting standard setters to take on the job of prudential regulation.

At the same time we would encourage FASB and IASB, resources permitting, to facilitate and participate in the discussion and resolution of fair value implementation issues more broadly, for example, through the Valuation Resource Group. This will reduce the diversity in practice and may help proactively address emerging practice issues.

7. Is there any other input that you'd like to convey to the FCAG?

Many misconceptions about fair value and its impact on the financial crisis have taken hold among various constituencies. Fair value accounting principles are understandable, yet require the application of informed judgment. The use of judgment has created concern among financial statement preparers and auditors. As a result, there has been an overemphasis on observable transaction prices ("last transaction price") even though in many cases such transaction data does reflect "fair value" as defined (e.g. orderly transaction pricing). Independent auditors and their regulators have historically

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operated in a rules-based accounting standards framework (at least in the US) and until the level of comfort with the use of judgment in applying principles-based concepts increases, we are likely to continue to encounter tension in the execution of the fair value measurement process for financial reporting.