DATATECH
MANAGEMENT, INC

October 8, 2008

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

LETTER OF COMMENT NO. 59

Re: File Reference – Proposed FSP FAS 157-d "Determining the Fair Value of a Financial Asset in a Market That Is Not Active"

Dear Mr. Golden:

DataTech Management appreciates the opportunity to respond to the FASB Staff Position and subsequent proposed amendment FASB Statement No. 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active.*

While the clarification of accounting standards in relation to fair value pricing methodologies for markets in which liquidity is severely impaired is necessary; we do not agree with the proposed approach. It is our opinion that implementing discounting methodologies using an asset specific "liquidity premium" will have a negative effect on the ability for many financial institutions to properly valuate assets in which there is a limited or no market.

As the goal of financial institutions is to provide long run liquidity to individuals and businesses, implementing an approach which requires financial institutions to constantly assume and pick an individual liquidity premium for each security in its portfolio is both nearly impossible and a catalyst for increasing asset and thus institutional volatility. This may spark unnecessary speculation by depositors and shareholders as to the well being of the underlying institution. As proponents of fair value accounting and the transparency it provides, the addition of a difficult to measure risk premium may very likely impair financial institutions' ability to operate the moment fair value accounting is elected.

It is with best regards we agree on the implementation of fair value accounting and adamantly disagree with requiring the short term asset specific liquidity risk premiums in the valuation of assets for long term investors.

We include specific comments on these issues as an Appendix. In addition, we would be pleased to discuss in more detail our position.

Sincerely,

Robert B. Perry
Managing Director
DataTech Management, Inc.

Appendix - Response to FASB Staff Position Clarification on Application Use of FAS 157

In all valuations the asset or sector specific short term liquidity premium portion of the discounting function proposed is an inappropriate addition to fair value accounting for long run investors and financial institutions.

Calculations of fair value for Level 3 assets in US financial institutions should exclude additions to the discount function resulting from lack of asset or sector specific short term liquidity. The recently released FASB staff position memo (FSP-FAS 157-d) encourages institutions to estimate changes in perceived short term market liquidity premiums in inactive markets and use these changes in liquidity premiums in subsequent pricing equations for Level 3 assets. Many financial institutions that now hold Level 3 assets (and many fixed income investors) would find it very difficult to accurately assess changes in asset or sector specific short term liquidity premiums in some of today's illiquid markets. These institutions and investors should not be required to assess asset or sector specific short term liquidity conditions for use in fair value asset pricing if they are long run investors with sufficient investment time horizons to retain assets. A recent paper by Campbell R. Harvey, Professor of Finance at the Duke University Fuqua School of Business titled *The Financial Crisis of 2008: What Needs to Happen After TARP* discusses asset liquidity premiums. The idea that under TARP the Treasury's computation of "fair value" should not be a "fire sale" price or a "hold to maturity" price as recently suggested by the Federal Reserve Chairman in his congressional testimony but rather a "fair price" which reflects reasonable asset liquidity premiums for long run investors is a position we believe FASB should embrace. Given this information we would recommend the following approach for pricing non Agency residential ABS:

1. Adopt a "store" and "flow" methodology for projecting cash flows
    a. Model the disposition of current non performing assets in the security over some reasonable timeframe.
    b. Project long run defaults on the performing portion of the security to maturity.
2. Discount/price these cash flows using an appropriate spread and a long run liquidity premium to the interest rate Swap curve.
    a. A short term liquidity premium should not be added to this spread for long run investors or financial institutions with a sufficient long-run time horizon. The Swap curve in the discounting process captures an overall market value for liquidity.

There are many seasoned non Agency mortgage backed securities which are being priced significantly below "fair value" based strictly on the added (perceptual) asset short term liquidity premium. FASP FAS 157-d describes in an example a fair value calculation in which

> "... Entity A determines that market rates of return generally have increased in the marketplace since the last date on which the market was considered active for the collateralized debt obligation security. Entity A determines that credit spreads have widened (100 basis points) [*we agree with this position*] and liquidity risk premiums have increased during that period (400 basis points) [*we disagree with this position*]. Other risks (for example, interest rate risk) have not changed."

It is our opinion that the volatility in this short term "liquidity risk premium" should be *excluded* from fair value calculations for long run investors. A 400 basis point increase in short term liquidity premium for an asset with a 5 year spread duration equates to a 20 point decrease in the asset's price. This price change could simply be the result of lack of participation from Wall Street in a pricing or bidding process. This lack of short term liquidity from Wall Street we believe is a fundamental error in determining an asset's "fair value" price for long run investors and institutions using FAS 157.

Using an interest rate Swap curve provides institutions an overall level for which to assess market liquidity. The Swap curve generally represents the constantly changing liquidity conditions for the fixed income market as a whole. Assigning a short term liquidity risk premium in pricing does not assist in eliminating "fire sale" prices when computing fair values under FAS 157 but rather solidifies the "fire sale" price as accurate. Pricing assets using cash flows, a credit spread and a matched cashflow duration Swap rate should help in stabilizing price volatility of less than liquid and illiquid assets since current market conditions make it increasingly difficult to assess short term liquidity risk premiums for individual assets.