

File Reference: Proposed FSP FAS 157-d

Objective: Communicate to investor an accurate value of assets on book.

Current Issues:

- 1) Inactive Market
- 2) Questionable Observed Data (Quotes, Bid-Ask spread)
- 3) Asset Pricing, Intrinsic (Models, Cash Flows, Discount Rate)
- 4) Market Quotes



LETTER OF COMMENT NO. 62

Proposal:

Make the asset holder's and accountant's pricing method transparent to the investors. This could be achieved by reporting the two prices and associated parameters in the holders' quarterly and yearly financial statements.

Executive Summary:

FASB 157 communicates to the public a conservative approach to valuing a set of assets & liabilities whose fair value is difficult to determine because of inactive markets. Currently FASB 157 only shows the public the results of the conservative approach and no transparency on its application. We therefore suggest that the rule be amended to include transparency into how the value was determined to give the public a base upon which to judge relative fair values across companies and increase consistency across companies. We also suggest that the conservative accounting value should also be given along with a management value which would be the sole responsibility of the company therefore creating a range of possible values for the asset under question. The company along with the accounting value would be transparent in initial value of asset, discount rates, expected cash flow, and reliance of bid quotes in the valuation. This would make accountants responsible for the accounting number and management accountable for the management number. Over time actual results will be reported which would give validity to accounting and management's ability to forecast cash flows and thus create a medium by which the public could forecast better the real price of level 3 assets under question. This transparency, we feel, will eliminate the amount of variability that is currently being priced in the market and will allow firms to communicate the value of the assets on their books better to the public.

Recommended Practices to be Included on Quarterly and Annual Statements

- 1) Range of Discount rates used on Level III assets. The asset holder internally values using traditional asset pricing model using the range of discount rates on different types of assets within Level III.
- 2) Bid prices (low end) of market quotes are aggregated.
- 3) The Accounting staff uses a blended model comprised of:
 - a. 30% aggregated bid prices
 - b. 70% asset holders' model price

Disclosure Parameters

	Initial Value of Asset	Discount Rates	Estimated Cash Flows	Blended Value	
1) Company Valuation	✓	✓	✓		
2) Accountant Valuation	✓	✓	✓	✓	
3) Bid Quotes	✓	N/A			