



October 9, 2008

Mr. Russell G. Golden
FASB Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 63

Re: FASB Staff Position 157-d

Dear Mr. Golden:

The Association of Financial Professionals (“AFP”) is pleased to have the opportunity to respond to the proposed FASB Staff Position 157-d, to amend FASB No. 157, Fair Value Measurements. We support the expeditious response of the FASB to clarify this important accounting standard and make available this guidance for the current reporting period. Overall, the AFP supports the clarification as proposed and urges the FASB to issue this FSP as soon as possible. The balance of the letter explains the proposal and responds to specific questions raised by FASB.

AFP represents approximately 16,000 finance and treasury professionals from over 5,000 corporations, including Fortune 1,000 and the largest of the middle market companies. Our membership includes a significant number of corporate treasurers who are responsible for the protection and management of corporate cash and cash flow requirements, including hedging activities for their companies, and for the oversight of cash management and investments, both short-term and long-term.

The proposed amendment clarifies the application of the new fair value measurement standard in circumstances when there is an inactive market. The FASB has forwarded an example of how to apply US GAAP when a liquid market does not exist for a financial instrument subject to FASB No. 157.

The intent of the standard was to establish a single definition of fair value and a framework for measuring fair value in GAAP. The consequence of the new guidance would be consistency and comparability in fair value measurements. While the disclosures and consistent methods of reporting have been well received by many financial statement users, the new fair value measurement standard lacked guidance on how to determine the fair value of financial assets in markets that are not active.

Specifically, FASB did not address how management’s internal assumptions should be considered when measuring fair value in the absence of relevant observable data. Internal assumptions are typically expected future cash flows and what discount rate would be the most appropriate. Other issues not addressed include how financial statement preparers might use observable market data if applied to markets that are not active. FASB has also requested input on how the use of market quotes, such as broker quotes or pricing services, might be used when assessing the relevance of observable and unobservable data available to measure fair value. FASB proposes to revise the standard and offers a new paragraph 11, called “Determining Fair Value in a Market that is Not Active”. The following letter responds to FASB’s questions and also addresses the example provided in the Exposure Draft.

FASB No. 157 General Comments

When the FASB agreed to move forward to incorporate fair value measurement as a better determination of value, this was fostered by the accurate notion that fair value is a better estimate of value than historic cost. Judgment is implicit in determining fair values, whether the judgment is in discerning the appropriate inputs to a fair market value equation, or when relying on algorithms to estimate appropriate discounts and premiums. In conclusion, the models result in a better estimate of value than if we were relying on historic cost.

We greatly appreciate the willingness of the FASB to provide an explicit clarification of FAS 157, illustrating a valid discounted cash flow analysis for financial instruments when an observable market is nonexistent. Discounted future cash flows are a fundamental measurement tool and have been relied upon for income producing assets for decades. Please note that the stated principles of FAS 157 are primarily focused on the exit price under normal market circumstances. Paragraph 7 specifically states that the fair value is based on an exchange price and emphasizes the use of the exit price. Using discounted cash flows is a method that has been overlooked since FASB No. 157 became effective. Not the FASB or our auditors who interpret GAAP, or banking supervisors understood the intent of the standard after financial reports in March and June financial filings relied on the exit pricing for an illiquid asset. Scores of companies were writing down available-for-sale mortgage-backed securities. This could have been avoided had the standard been made clearer as to the appropriate accounting for illiquid markets.

Use of Management's Internal Assumptions

The subjective elements in projecting future cash flows of an income producing asset involve measuring payment risk, such as non-performance risk, liquidity, prepayment risk and other factors that influence the reliability of the revenue stream. Otherwise, the expected coupon of the security is used to project future cash flows, adjusted for the time value of money using LIBOR or Treasury rates. Companies struggle with determining whether a single discount should be applied for an entire portfolio, or whether specific assets should be measured on a case by case basis. The characterization of the asset or liability as an asset that will be held to maturity or over a period of time should be relevant to the valuation.

Using Observable Market Data in Unobservable Markets

FASB No. 157 fails to tell us when we can rely on judgment to determine whether certain financial instruments qualify for Level 2 or Level 3. FASB No. 157 was intended to avoid inconsistencies in valuation. We think that there are unavoidable inconsistencies in disclosure because of the unavoidable subjectivity in what an observable market is and what an unobservable market is. Are three trades around a price point adequate to substantiate a liquid market? Another company would expect more information to consider it a liquid market before it could be considered observable. FASB might assist in avoiding this subjectivity by providing more examples of observable (liquid) markets and unobservable (illiquid) markets.

Observable market data is being used to estimate values on similar instruments where there has existed correlation. We think that it is prudent to expect that levels of liquidity in markets will rise and fall based on market circumstances. From period to period, we expect that the roll forward of fair value disclosures will migrate some positions from Level 2 to Level 3, and the reverse as markets change. Enhanced

guidance governing observable and unobservable market prices would help improve the consistency in characterizing financial instruments in each category.

Using Broker Quotes

Broker quotes may be effective in confirming levels in otherwise thinly traded instruments. The difficulty is that brokers are not in the business of providing quotes unless they expect to trade them. The data point that may be provided by a broker may not be one that the broker is willing to conduct a trade. We have found that brokers have provided data as a courtesy to potential counterparties. However, typically very little information about the reasoning for the broker quote is provided and the reliability of the quotes is therefore suspect.

More and more pricing services have become available to assist in valuing financial instruments that are within the scope of FASB No. 157. They are unavoidably expensive and have added to our ever-growing compliance and audit costs.

Example

We think that multiple indications provided by different parties provide corroborating evidence of the market, and not just one indication. We ask that the FASB addresses whether management can use judgment to determine what level of indications are adequate to supporting management's assumptions for fair values.

The example presents a situation where the indications received from the market were in agreement. However, the example does not suggest how disparate indications might be interpreted and what level of consistency is necessary to consider the indications supportive of management's assumptions. An example of how disparate indications should be addressed would be helpful.

Thank you for the opportunity to comment on this important clarification to FASB No. 157. Please feel free to contact Jeff A. Glenzer, CTP, Managing Director, at (301) 961-8872 for follow up questions about our remarks stated herein.

Sincerely,



June M. Johnson, CPA, CTP
Chair of the AFP Financial Accounting and
Investor Relations Task Force



Maureen O'Boyle, CCM
Chair of the AFP Government
Relations Committee