

Alcoa

201 isabella St at 7th St Bridge Pittsburgh, PA 15212-5858 USA Tel: 1 412 553 4545

Fax: 1 412 553 4498

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No.: Proposed FSP FAS 157-d



LETTER OF COMMENT NO.

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Dear Technical Director:

Alcoa Inc. appreciates the opportunity to comment on the Exposure Draft referenced above. Alcoa is the world leader in the combined production and management of primary aluminum, fabricated aluminum and alumina.

We are conceptually in agreement with the proposed clarification of FAS 157 as fair measurements using Level 3 inputs may be necessary while operating in a volatile economic environment. While Alcoa does not hold collateralized debt obligations as cited in the example of paragraph 11 of the FSP, we feel the concepts applied in this example could be relevant to certain financial instruments which Alcoa currently holds. We and our auditors have struggled with the appropriate measurement of these instruments and we believe the guidance in the proposed FSP would be very helpful in providing clarification.

We offer the following specific comments on the proposed FSP.

Scope - Paragraph 7 and 8

We feel that Paragraph 7 and 8 of the proposed FSP should not limit the application of this interpretation only to financial assets. Rather, this FSP should address all financial instruments - whether they are assets or liabilities.

Amendments to Statement 157 – Paragraph 9

The clarifications in paragraph 9 are extremely helpful in interpreting and applying fair value measurements. We feel, however, the FASB should provide additional qualitative descriptions or examples in the text of paragraph 9 of "relevant observable market data" (para. 9b) and "active markets" (para. 9c). For example, the description of "if an active market does not exist" in paragraph 9c could be followed by "(i.e., where there is a significant imbalance between supply and demand or a significant widening of bid-ask spreads)".

Some of these clarifications are included in the example presented in paragraph 11. We believe it would be helpful if key points from those same examples would be codified in paragraph 9 as further clarification. Specifically, the FASB should address in paragraph 9 the concept that "inactive" markets could provide inappropriate fair value measurement inputs and that management should consider not only currently available market data, but also historical data when measuring fair value. In the current economic environment, there are transactions which could be perceived as "relevant observable market data" simply because there are a few transactions occurring and quotes are available. However, these limited transactions are not representative of those that occur in a liquid and orderly market. Current market data could therefore provide fair measurements which are contrary to the definition of fair value in paragraph 5 of FAS 157. Therefore, we feel it is important for the FASB to emphasize and further clarify the use of management judgment surrounding "relevant observable market data" and the definitions of "active markets" and "inactive markets" in Paragraph 9.

Thank you for allowing us the opportunity to present our views on this Exposure Draft. Please contact myself at (412) 553-4521 or Jack Klingler, Director of Financial Accounting, at (412) 553-1629 if you would like us to clarify any of our comments.

Sincerely,

Tony R. Thene

Vice President and Controller