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Mr. Lawrence Smith
Director – Technical Application and Implementation
File Reference No. 1520-100
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 19

Dear Mr. Smith:

BDO Seidman, LLP and Trenwith Valuation, LLC are pleased to respond to the Invitation to Comment, *Valuation Guidance for Financial Reporting*.

Questions for Respondents

Question 1: Is there a need for valuation guidance specifically for financial reporting?

Yes. With no valuation standards/guidance currently available that are specific to financial reporting, some valuation specialists may apply approaches and techniques that they have used for tax or other valuations that may not be appropriate for financial reporting. Further, when entities begin adopting SFAS 157, the achievement of consistent interpretation by valuation specialists of that standard's fair value concepts/terms such as market participants, exit price, highest and best use, unit of account, unit of valuation, valuation premise, principal market, most advantageous market, Level 2 inputs, etc., would be facilitated by the existence of valuation standards that use or refer to the same terminology.

Question 1(a): Should valuation guidance include conceptual valuation guidance, detailed implementation guidance, or a combination of both?

Valuation guidance should include a combination of both. The emphasis should be on conceptual guidance, but some detailed implementation guidance is needed to appropriately limit diversity in practice. We do not believe, however, that the implementation guidance should be provided to such a level of detail that it would prescribe specific valuation approaches, methods, or techniques for specified situations.

Question 1(b): What should be the duration of valuation-guidance-setting activities?

We believe there should be a permanent, continuing process in place to handle new situations as they arise—e.g., as new accounting standards are issued requiring

measurement at fair value, or as new types of financial instruments are issued. This process would include both reassessment and updating of existing guidance as well as promulgation of new guidance as required. We believe that after initial standards are established the activities should diminish, but there will be a continuing need for interpretive guidance (similar to the EITF for accounting guidance).

Question 2: What level of participation should existing appraisal organizations have in establishing valuation guidance for financial reporting?

We believe that whatever process is established could use and build on the expertise of existing appraisal organizations, but that other groups should also be involved in order to provide perspective and public interest oversight. See also our answer to Question 4; such existing organizations should include not only U.S.-based valuation standards setting groups (such as the American Society of Appraisers (ASA), the Appraisal Standards Board (ASB) of the Appraisal Foundation, and the AICPA) but also the International Valuation Standards Committee (IVSC).

Question 3: What process should be used for issuing valuation guidance for financial reporting?

We prefer alternative (d) – a separate permanent standard setter that issues valuation guidance under the oversight of the FASB and the SEC. This would be similar to the role of the PCAOB in issuing (public company) auditing guidance under the oversight of the SEC. However, with respect to the statement in the Invitation to Comment that “Separate resource groups could be formed for different fact patterns or issues,” that may prove inefficient if entirely different resource groups are formed every time a different fact pattern or issue arises. We would recommend that any such separate permanent standard setter consist of a core group of say 5 to 10 individuals, and then different additional individuals could be enlisted to make up a resource group, based on the specific fact pattern or issue at hand, that works in conjunction with the core group to develop proposed guidance.

Question 4: Should the process of valuation guidance be on an international or national level?

We believe that ideally this should be an international effort, as estimating fair value for financial reporting should be the same on a worldwide basis. Because it appears that an international effort may present many logistical challenges, e.g., that current barriers to achieving worldwide consensus may not easily be overcome, the process may be highly time-consuming, or the GAAP and IFRS definitions of fair value may not be identical, we believe a national effort would be an excellent starting point. It would seem beneficial, from a longer-term perspective, for any such national effort to have international participants and/or observers and to harmonize with any international effort.

As the ASA is one of the original founding members of the Appraisal Foundation, which is in turn a member of the IVSC, one approach is to have the various parties (FASB, ASA, etc.) work together under the IVSC umbrella. The FASB would be the primary

provider of insight and guidance for valuation for financial reporting, while the ASA, ASB, and other groups involved in standards setting for purposes other than financial reporting would be the primary providers of insight and guidance for those purposes.

The logistical challenges noted above will likely be faced in the short term. However, the aforementioned domestic and international organizations could begin coordinating their efforts now, with the U.S. effort likely requiring less time for completion, and with the longer-term objective being international guidance and an international oversight process.

Other potential issue a: Who should grant authority to issue the valuation guidance?

If valuation standards setting for financial reporting becomes a national effort, then as discussed above under our response to Question 3, such authority should be granted jointly by the FASB and the SEC. If such valuation standards setting instead becomes an international effort, the issue of authority will need to be worked out among a number of parties, e.g., international valuation standards setting bodies, domestic valuation standards setting bodies, the International Accounting Standards Board, the FASB, and the SEC. As discussed in the IVSC's "Proposal for the Restructuring of the IVSC," the process of promulgating international valuation standards (for purposes including, but not limited to, financial reporting) is not yet close to being finalized.

Other potential issue b: What due process procedures should the standard setter follow in issuing valuation guidance?

Similar to the process currently used by the FASB for setting accounting standards, there should be an adequate opportunity for public comment on tentative conclusions (e.g., via an exposure draft of a proposed valuation standard, and possibly public roundtable discussions as well). The decision making process should be transparent.

Other potential issue c: How should any other organization that issues valuation guidance be funded?

Possible approaches include funding through (1) the Financial Accounting Foundation (FAF) and the SEC and (2) public company assessments that fund the FASB and PCAOB.

Other potential issues not listed in the Invitation to Comment:

Valuation specialists who assist in the preparation of GAAP financial statements should be subject to an enforcement and disciplinary mechanism. Even good standards will be ineffective if there is no way to enforce them universally and no adverse consequences to specialists who violate them.



For any such enforcement mechanism, there will need to be a clear delineation of valuation specialist and auditor responsibilities. For example, if a regulator inspects a valuation specialist's valuation review report that was prepared in connection with preparation of financial statements and concludes that the report is deficient in some manner, how will it be determined how much, if any, responsibility for the deficiency is shared by the auditor?

We would be pleased to discuss our comments with the Board or the FASB staff. Please direct questions to Ben Neuhausen at BDO Seidman at 312-616-4661, or Charles Stryker at Trenwith Valuation at 212-885-8596.

Very truly yours,

s/ BDO Seidman, LLP and Trenwith Valuation, LLC