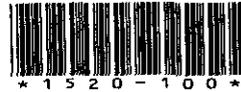


April 15, 2007



LETTER OF COMMENT NO. 48

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856  
[director@fasb.org](mailto:director@fasb.org)

File Reference No. 1520-100

We appreciate the opportunity to comment on the Invitation To Comment, *Valuation Guidance for Financial Reporting*. Fair value measurements are more evident in financial reporting today than in the past and are expected to be more pervasive in the future. Therefore, a sound, consistent approach for determining fair value is needed. We are pleased that the FASB has started a dialogue on the need for valuation guidance.

Our response is organized to correspond with the issues as they are outlined in the Invitation To Comment.

### **Need for Valuation Guidance**

#### **Question 1 – Is there a Need for Valuation Guidance Specifically for Financial Reporting?**

Recently, the use of fair value in financial reporting has become more prevalent. Several recent accounting pronouncements either require fair value measurements or allow entities to elect fair value measurements for certain assets and liabilities. Consequently, we believe that there is an increasing need for preparers, users, and auditors of financial statements, and valuation professionals to have a common understanding of fair value measurements that is consistent with the objective of financial reporting. Therefore, we believe valuation guidance should be developed specifically for financial reporting purposes.

#### **Question 1(a) – Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?**

We believe that there is a need for a combination of both conceptual and practical implementation guidance.

We believe conceptual guidance would provide a foundation for establishing

- Future valuation guidance that may be issued.
- An understanding of fair value measurements in financial reporting that is shared by valuation specialists and accountants involved in financial reporting.
- A more uniform approach within the valuation profession to valuation measurements that meet the objectives of financial reporting.

In this regard, FASB Statement 157, *Fair Value Measurements*, includes several valuation concepts that we believe will improve the consistency of fair value measurements. As the need arises, additional conceptual guidance could be developed in the future.

We also believe that situations have arisen and will continue to arise where detailed implementation guidance could improve consistency and comparability of fair value measurements in financial reporting. For example, past experience with the implementation of FASB Statement 142, *Goodwill and Other Intangible Assets*, has highlighted the need for accountants and valuation professionals to be able to reach a common understanding of the words used in accounting standards. Different interpretations resulted because the language of the accounting standard appeared ambiguous in the context of the technical language and training of valuation professionals. We believe that FASB Statement 157 will improve financial reporting by addressing that communications gap between the professions involved with financial reporting. However, questions about the application of Statement 157 are beginning to surface. For example, we understand that there are widely diverse views with respect to the interpretation of the circumstances in which adjustments to level 2 inputs would render the measurement a level 3 measurement. Detailed implementation guidance might help assure consistent application of the guidance in that Statement as well as future valuation standards.

#### **Question 1(b) – What Should Be the Duration of Any Valuation-Guidance-Setting Activities?**

The one constant in the accounting environment is that change is inevitable. We suspect that new accounting standards with a focus on fair value measurements will continue to be issued. Inevitably, implementation questions will surface prompting the need for additional guidance. New financial instruments could also be developed that challenge existing valuation models. It is also possible that advances in technology could result in the development of enhanced valuation models that could obsolete existing models. For these reasons, we believe that a permanent process should be established to address new issues as they arise.

#### **Level of Participation by Existing Appraisal Organizations**

##### **Question 2 – What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?**

We think that existing appraisal organizations could nominate candidates for, or otherwise participate in, the selection of valuation professionals to serve on a new valuation body described in our response to question 3.

#### **Process for Issuing Valuation Guidance**

##### **Question 3- What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?**

We suggest that a new valuation body be established under the oversight of the FASB to provide valuation guidance for financial reporting. That the new body could establish guidance that would be exposed for comment and subject to FASB Board clearance. We understand that, although the various appraisal bodies attempt to harmonize valuation guidance, standard setting for valuation services in the United States is fragmented. As a result, there is not a single authoritative set of generally accepted valuation standards analogous to generally accepted accounting principles. Therefore, FASB clearance and oversight would ensure that the valuation guidance issued is authoritative for financial reporting purposes. We acknowledge that FASB Board members themselves may not have technical training and experience as valuation professionals and that clearance of valuation guidance may represent a significant time commitment.

We suggest that the new valuation body have the ability to set its own agenda and provide guidance to

- Assist the FASB in the development of the financial reporting conceptual framework and standards. This valuation body would take on an advisory role to the FASB during its standard setting process, for example, in helping the Board to understand the implications of requiring fair value measurements in a particular circumstance and to develop appropriate valuation guidance for inclusion in those standards. The valuation body could raise issues about current Board projects or suggest additions to the Board's agenda.
- Address implementation issues in a manner similar to that of the EITF. We think such guidance should be exposed for public comment and cleared by the FASB Board.
- Provide nonauthoritative implementation guides (or clear such guidance prepared by the AICPA or possibly by other appraisal organizations).
- Consider international convergence for valuation guidance only to the extent that U.S. GAAP is converged with international accounting standards.

We believe that the combined technical knowledge and experience of the members of the new valuation body should enable them to

- Define what is being measured for accounting purposes and identify the appropriateness, effectiveness, and practicability of valuation alternatives.
- Provide guidance that bridges any communications gap that may exist between the accounting and valuation professions stemming from differences in technical language or concepts. Guidance that clearly communicates to both the providers and users of valuation services could improve the consistency and comparability of financial reporting. Such guidance should meet the needs of valuation professionals not trained as accountants who apply their specialized knowledge to meet financial reporting standards. At the same time, preparers and auditors responsible for financial reporting need to understand the nature and appropriateness of the valuation services provided even if they lack the technical knowledge and experience to perform valuation services themselves.
- Provide guidance applicable to public, private, and not-for-profit organizations, and consider whether there are differences between the types of organizations that should be reflected in the nature and extent of guidance issued. For example, valuation issues could arise if the FASB finalizes the proposed requirement for a not-for-profit organization to recognize identifiable donor relationship intangible assets in a merger or acquisition.

Accordingly, we believe the valuation body should consist of

- Valuation professionals (at least half the body)
- Preparers, auditors, and users of financial statements
- SEC Observer

The role of the FASB Board members could be similar to their role on the EITF. As noted in our response to question 2, we think that existing appraisal organizations could nominate candidates for, or otherwise participate in, the selection of valuation professionals, to serve on the valuation body.

### **International Convergence**

#### **Question 4 – Should the Process of Valuation Guidance Be on an International or National Level?**

In our view, the new valuation body should focus on valuation guidance for U.S. GAAP but also consider the potential for convergence with international valuation guidance that may exist only to the extent that U.S. GAAP is converged with international accounting standards. To focus primarily on developing guidance at the international level would overlook the differences that currently exist between U.S. GAAP and international accounting standards. We are concerned that international level guidance would provide little or no consideration of issues that could arise affecting not-for-profit organizations or private companies that have not adopted international accounting standards.

\*\*\*\*\*

We would be pleased to discuss our comment with Board members or staff. Please direct your questions or comments to Joseph Graziano at (732) 516-5560, Ann McIntosh at (612) 677-5257, or David Dufendach at (206) 398-2476.

Sincerely,

/s/ Grant Thornton LLP