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April 19, 2007

Technical Director File Reference No. 1520-100 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Invitation to Comment

We are pleased to respond to the Financial Accounting Standards Board's (FASB or Board) Invitation to Comment, *Valuation Guidance for Financial Reporting* (the ITC). Huron Consulting Group has an active practice in Financial Reporting Valuation that provides us with a front-row view of the issues of practicing in the financial reporting valuation arena today.

The issuance of FASB Statement No. 157, Fair Value Measurements, which defined fair value in a way that is different from the definition that was historically followed by the valuation community, following the earlier issuances of FASB Statement No. 141, Business Combinations, FASB Statement No. 142, Goodwill and Other Intangible Assets, and FASB Statement No. 143, Asset Retirement Obligations, to name just a few of the more recent standards requiring the determination of fair value for non-financial assets and liabilities, have already created the need for valuation guidance to reduce diversity in practice with respect to valuations and address issues that the valuation community has not been able to resolve.

One result the lack of guidance on determining fair value is the sometimes differing approaches favored by the accounting firms for determining the fair value of specific assets and liabilities. As a consequence of the differing approaches, a valuation specialist may be required to spend additional time explaining the approach used to value a specific asset or liability to a company's independent auditor, even though it may have used the same approach to determine the fair value of the same asset or liability of another company that has a different independent auditor that accepted the approach without question. While there is discussion between the accounting and valuation firms in an attempt to reduce diversity, we do not believe de facto standard setting by a limited group of participants is the best approach.

Further, as noted in <u>Illustrative Valuation Issues Developed by a Subcommittee to the AITF</u>, a report prepared by an ad hoc voluntary subcommittee of the Appraisal Issues Task Force (AITF), valuation specialists believe additional guidance is necessary on the following technical issues:

- Contributory Assets (Including Going Concern and Other Elements of Goodwill)
- Control Premium in a DCF Enterprise Valuation



- Overlapping customers
- Economic Rents for Contributory Asset Charges
- Discounts for lack of control or liquidity.

While these are admittedly specific technical topics, each of these issues has led to many hours of discussions between valuation professionals, their clients, and their client's auditors. Approaches to addressing the impact of these and other issues on fair value vary, as do the preferences of the accounting firms. This lack of clarity surrounding the treatment of these issues has resulted in diversity in practice and in many hours of additional work due to the divergence in what is accepted practice by the accounting firms.

In fairness, the AITF, which is open to all in the valuation community, was not created to resolve these issues. Its intended purpose was to identify and highlight diversity in practice and offer a forum for discussion of those issues. However, we do not believe the AITF is the organization that can develop valuation guidance. The AITF has not attempted, and we believe it is not able, to reach an authoritative resolution on valuation guidance because it was not created as a rule making body. The AITF does not represent all financial statement constituents, does not have the budget to fulfill this role, is too large to function effectively in a rule making capacity, and lacks the authority to create guidance. Finally, neither the SEC nor the FASB has demonstrated any interest in the AITF functioning as anything other than a valuation industry forum. For all of these reasons, in the five years since the AITF was formed, it has not attempted to issue any valuation guidance.

With respect to the specific questions raised in the ITC, we offer the following thoughts:

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

As discussed above, we believe that with the prominent role of fair value in recent FASB pronouncements, valuation guidance specifically for financial reporting is needed to minimize diversity in practice and to resolve existing issues that have led, or may in the future lead, to diversity in practice.

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

We believe valuation guidance should be a combination of conceptual guidance and implementation guidance. We believe any guidance should clearly articulate the principle behind the guidance and should provide application guidance that shows the spirit and intent in which the guidance was intended to be applied. The clear articulation of the principle and the application guidance should be sufficient to enhance the ability of valuation specialists, preparers and auditors to consistently apply the principles and should minimize differences in approaches taken to determine fair value.

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

We believe a permanent process needs to be established to provide valuation guidance on an ongoing basis. We see no reason to believe that issues arising in connection with determining fair value will be any more static than the issues that give rise to new accounting standards.

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

We believe that any effort to set standards for valuation guidance must involve knowledgeable valuation professionals and that those professionals must take the lead in establishing the technical aspects of the



valuation guidance. However, we do not believe there is any existing appraisal organization with the infrastructure, standing, or budget to lead the standard setting effort.

Although we believe the standard setting effort should be led by valuation professionals, we believe that preparers, auditors, and users should be involved in the process.

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

We believe a separate organization should be created to issue valuation guidance. Because of the specialized skills and knowledge required to develop robust valuation guidance, we are concerned that the current level of FASB staff expertise in valuation matters is too limited to properly address this task and that the development of those resources has the potential to distract the Board from its "highest and best use" – setting accounting standards.

We also do not believe existing structures within the valuation community are adequate for the reasons stated previously. Accordingly, we prefer the creation of a new organization to provide valuation guidance. However, because of the close relationship between the accounting standards and the need for valuation guidance related to those standards, we believe any new organization should be subject to oversight by the Financial Accounting Foundation (FAF).

We believe the FASB should play a role in providing valuation guidance, but we believe that role can best be served by the Board clearly stating its view of what fair value means from a financial reporting perspective (as it has in FASB Statement No. 157). A separate organization responsible for issuing valuation guidance would then be guided by the Board's views. To the extent the Board is concerned that a separate organization could result in the issuance of guidance that conflicts with the Board's view of what fair value means from a financial reporting perspective, we believe the FAF should establish a mechanism for resolving differences, which potentially could include giving the Board veto authority over valuation guidance it believes is inconsistent with the objective of reporting fair value.

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

While we believe it would be preferable to provide valuation guidance on an international level given the role fair value plays in standards issued by the International Accounting Standards Board, we would not be in favor of delaying the process of providing guidance that is needed today in the interests of international convergence.

Other Issues

a. Who should grant authority to issue the valuation guidance?

We believe the authority to issue valuation guidance should be granted by the FAF and that the authority of the new organization should be recognized by the SEC.

b. What due process procedures should the standard setter follow in issuing valuation guidance?

We believe the same due process procedures the Board follows in issuing new accounting standards should be followed by the standard setter responsible for issuing valuation guidance.

c. How should any other organization that issues valuation guidance be funded?

We believe the standard setter responsible for issuing valuation guidance should be funded in the same manner as the FASB.

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We would be pleased to discuss any of our comments with the Board or the FASB staff. Please direct your questions or comments to Jim Dondero at (617) 226-5507 or Jeff Ellis at (312) 880-3019.

Very truly yours,

Huron Consulting Group

James F. Dondero Managing Director

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