

April 19, 2007

Mr. Lawrence W. Smith
Director TA&I
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 72

Invitation to Comment, *Valuation Guidance for Financial Reporting*
(File Reference No.1520-100)

Dear Mr. Smith:

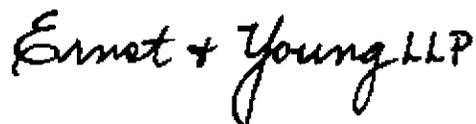
Ernst & Young appreciates the opportunity to respond to the above-referenced Invitation to Comment.

We support the Board's effort to explore the need for specific valuation guidance relating to financial reporting. It is our belief that valuation guidance related to financial reporting is needed given the increasing use of fair value measurements in financial reporting and the efforts of the IASB and the FASB to develop measurement guidance within their revised conceptual framework. Also, we believe that any body charged with developing such guidance should include experienced valuation professionals, but must ultimately report to the FASB to ensure that there are no conflicts between fair value accounting literature and related valuation guidance, and that such guidance is subject to the same due process as FASB pronouncements.

Please refer to the attachment to this letter for our detailed responses to the questions posed in the Invitation to Comment.

We would be pleased to discuss our comments with Board members or the FASB staff.

Very truly yours,



Responses to Questions in the Invitation to Comment, *Valuation Guidance for Financial Reporting*

Need for Valuation Guidance

Question 1—Is There a Need for Valuation Guidance Specifically for Financial Reporting?

Ernst & Young believes that there is a need for specific valuation guidance for financial reporting purposes, and that financial markets would benefit from the reduction in diversity in practice that should result from the development of such guidance.

The valuation and appraisal profession has been in existence for many years, but has not been effected by increased government regulation, as has been the case with the accounting profession. The real estate appraisal profession underwent some changes in the 1980's, in response to the savings and loan crisis, which led to the passage of FIRREA by Congress, the establishment of the Appraisal Foundation, and the development of the multi-disciplinary Uniform Principles of Appraisal Practice ("USPAP"). Comparatively, the broader valuation profession has yet to generate the level of guidance that we believe is important to increased consistency in the application and comparability of valuations for financial statement purposes.

The valuation and appraisal profession in the United States consists of a number of member organizations, which all have somewhat different constituencies and disciplinary practices. The guidance these organizations have developed for their members generally reflects the kinds of valuations performed by their respective membership. No one organization has a primary focus on financial accounting and no one organization has developed comprehensive guidance on valuations for financial reporting. As the U.S. and international accounting standards have shifted in focus from primarily historical cost to more fair value accounting measures, a key area of a valuation professional's endeavors, fair value measurement, is without uniform technical guidance from the perspective of the needs of the financial accounting community and the public at large.

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

We believe that valuation guidance for financial reporting should include a combination of conceptual and detailed implementation guidance. While the issuance of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement 157) was an important step in the development of conceptual accounting guidance, we believe additional guidance regarding valuation practice issues is needed.

In addition to a high level conceptual framework, more detailed implementation guidance on many topics should be developed to answer the specific needs of the financial accounting community. We believe that the development of detailed guidance specific to financial accounting will reduce the diversity in valuation practices that exist with respect to fair value measurement.

Please note that this does not mean that we believe the implementation guidance should consist of volumes of specific rules. Instead, we believe this guidance should be principles based, combined with “best practices” corollaries. As many if not most valuation issues are dependent on, and may vary around specific facts and circumstances, professional judgment will always play an important role in the valuation process.

Question 1(b)—What Should be the Duration of Any Valuation-Guidance-Setting Activities?

We believe that the development of valuation guidance as it applies to financial reporting should be an ongoing effort. As U.S. accounting standards, international accounting standards, valuation practices, business economics, and technology all continue to evolve; there will be a need to update the initial guidance developed to address these environmental changes.

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 believe that two distinctive types of organizations exist in the valuation and appraisal profession today. First are membership organizations, which are, in essence, professional societies. Examples include the American Society of Appraisers and the Appraisal Institute. Second are quasi-public, or non-membership organizations such as the Appraisal Foundation (in the U.S.) and the International Valuation Standards Committee (“IVSC”).

In our view, both types of organizations can and should play a key role in due process activities. In addition, both types of organizations could provide candidates for any new guidance setting organization. However, of these organizations, we believe that the second type would be better suited for the outsourcing of any guidance setting (see option (d) below), as these types of organizations have a structure and mission similar to the FASB for their respective professional communities.

Process for Issuing Valuation Guidance

Question 3—What Process Should Be Used For Issuing Valuation Guidance for Financial Reporting?

- a. The FASB could issue valuation guidance without assistance from any external individuals or organizations.*
- b. The FASB could issue valuation guidance with assistance from resource groups for specific issues.*
- c. The FASB could issue valuation guidance with assistance from an organization structured similar to the FASB's EITF.*
- d. A separate permanent standard setter could issue valuation guidance under the oversight of the FASB and the SEC.*

We believe that each of the four options set forth in the Invitation to Comment has merit. Which path is chosen will be, in part, dependent on the level of effort and investment that the FASB ultimately desires to spend on this activity.

Option (a) may require the greatest level of investment in new resources by the FASB. In order to develop a self-contained standard-setting capability in the valuation field, many new staff members, with diverse backgrounds, will need to be recruited. While this option provides the greatest level of control over the process by the FASB and would create a group with a singularity of purpose, the time and expense to construct such a capability may be more than the FASB would like to take on at this point in time.

We believe option (b) would call for reduced investment in new staff, relative to option (a). Expertise could be drawn, on a volunteer basis, from resource groups. This approach retains some control by the FASB over the process, but places reliance on volunteers who have other obligations. The standard setting process may be less efficient, and more ad hoc, within this construct.

It is our opinion that, as suggested by option (c), the creation of an organization, similar to the EITF, may be the best among the suggested alternatives. Such an organization would be appointed and could be drawn from various constituencies and backgrounds, while still utilizing resource groups when needed. FASB staff could readily coordinate the activities of such a group, and resulting consensuses would require approval by the Board (as well as, perhaps, an intermediate approval by the staff, the EITF, or some other accounting-focused committee). The cost and time investment by FASB would be reduced, volunteers would be utilized, yet control and a singularity of purpose may be more attainable.

We would view option (d) to, in effect, be an “outsourcing” of valuation standard setting activity. We think this option could be approached in two different ways. Under the first approach, a

permanent valuation standard-setter organization could be developed from scratch. The benefits would be a singular focus and chain of command, while detriments would include the added cost and time associated with such a startup. Under the second, the permanent standard setting authority could be vested in one of the non-membership appraisal organizations discussed above. The benefit of this approach would be a much quicker implementation and the ability to utilize an existing valuation and appraisal-focused infrastructure. The detriment would be a standard-setter that has other potential distractions and would be perceived as being less connected to financial reporting issues. In our opinion, for this approach to be successful, this body should be connected to the FASB in a manner that ensures against inconsistencies in valuation and accounting guidance. Accordingly, it should not be a sister organization nor a separate body.

While all of the four approaches are workable, and would serve to improve the level of valuation guidance for financial reporting, we believe option (c) to be the best blend of the following characteristics: 1) a focused effort on valuation guidance; 2) connectivity to the more general financial reporting standard setting process and knowledge; and 3) ease of implementation. The key to a successful process is that the FASB and the SEC be involved, and be perceived by the accounting community as having significant authority in the guidance development process. This will facilitate immediate acceptance of the guidance by all constituencies and serve to eliminate confusion in the professional specialist community.

International Convergence

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

In an ideal situation, we believe that this would be an international undertaking. We support the FASB's and IASB's move towards convergence and recognize the appeal of creating valuation guidance on an international level. However, we are concerned that attempting to coordinate a new effort such as this on an international basis may be too great of an effort at this time, and would serve as a distraction from the rapid development of useful guidance. As such, we believe it would be prudent for the process of developing valuation guidance to be approached from a national perspective at this time. As the FASB and the IASB move towards convergence on the meaning and use of measurement objectives for financial reporting, such as fair value, the valuation guidance developed in the U.S. could be an important input into the development of international guidance.

Other Potential Issues

Issue 22(a) - Who should grant authority to issue the valuation guidance?

Since the focus of this effort is the development of guidance for fair value measurement in financial reporting, the FASB, as the designated private-sector standard setter, which has been reaffirmed by the SEC through FRR 70, is the appropriate entity to grant authority to issue valuation guidance for financial reporting. This authority could be exercised in any of the four options discussed above.

Issue 22(b) - What due process procedures should the standard setter follow in issuing valuation guidance?

The due process effort for the development of valuation guidance should mirror that used in other FASB standard-setting efforts. Public exposure, comment gathering and assessment, public roundtables, and Board consideration would all contribute to the transparency of the process. Due process could be accomplished in a similar fashion in options (a), (b) and (c) discussed above. Option (d) may require some differences in how the due process is managed, although the essence of the process should be similar.

Issue 22(c) - How should any other organization that issues guidance be funded?

Internal efforts, such as the development of a self-contained valuation standard-setting function, or a smaller group, augmented by resource groups would require significant levels of new funding by FASB. Support of an EITF-like organization may be the most affordable option. Funding for a separate start-up standard setter could be accomplished through the FASB, the SEC or through a fee-charging registration process by industry participants. It is possible that congressional approval may be necessary to accomplish some or all of these funding options. The use of an already existing organization may provide access to funding through that organization's current budget procurement process, and may be more easily facilitated.