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LETTER OF COMMENT NO. 18

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File Reference: Proposed FSP FAS 157-b

Proposed FASB Staff Position No. 157-b, "Effective Date of FASB Statement No. 157"

Dear Mr. Golden:

We are pleased to comment on the above mentioned proposed Financial Accounting Standards Board (FASB or the Board) Staff Position No. 157-b, "Effective Date of FASB Statement No. 157" (the proposed FSP).

We recognize that the decision the FASB faces regarding whether to defer the effective date of FASB Statement No. 157, Fair Value Measurements (Statement 157 or the Statement), is a difficult one, as it may have been deemed by the Board as requiring weighing the benefits of increased transparency stemming from the enhanced disclosure requirements of Statement 157 versus the risk of significant diversity in application as many constituents struggle to understand and practically apply the theoretical concepts in the Statement. However, we do not see a decision to provide users with valuable, meaningful disclosures for fiscal 2008 financial statements as being mutually exclusive from a decision to fully defer Statement 157 for a period of one year. As such, we continue to support the original recommendation made by the FASB staff (and supported by 3 Board members) for a one-year blanket deferral of Statement 157. We believe this approach, coupled with additional disclosure requirements for fiscal 2008 financial statements - disclosures that would provide increased transparency - consistent with the objectives of the disclosures required by Statement 157, would provide adequate time for constituents (preparers, users, auditors and regulators alike) to address the numerous and complex implementation issues associated with Statement 157, without sacrificing the additional transparency of particular value to users in this time of market unrest.

On October 17, 2007 and again on November 14, 2007, the Board decided against a blanket deferral of the effective date of Statement 157, instead proposing a partial deferral that would apply solely to nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. During the discussions surrounding the need for deferral, Board members cited the following reasons in supporting partial deferral: (i) benefits to users resulting from the

increased disclosures required by Statement 157, particularly for financial assets and liabilities given current financial market conditions, (ii) the long implementation period for Statement 157 (which was issued approximately 16 months ago), and (iii) the ability of certain entities, principally large, sophisticated financial institutions, to early adopt the provisions of Statement 157.

We agree that increased transparency with respect to the methodologies and inputs used in determining fair value measures used in financial reporting is an integral part of Statement 157 and has been received very positively by users of financial statements for those entities that early adopted Statement 157. We believe that users should have this information, particularly during this period of tight liquidity and market unrest. As noted above, and as discussed by the FASB staff in the October 17<sup>th</sup> meeting handout, a disclosure package requiring information consistent with the objectives of Statement 157's disclosures could provide increased transparency to users in fiscal 2008 financial statements.

While the issuance date of Statement 157 did allow for a lengthy implementation period prior to its effective date, we believe that many constituents have only recently begun to comprehensively assess the implications of the Statement. Although Statement 157 does not establish any new fair value measurements, it will require a fundamental shift in how entities in many industries approach fair value estimates for certain types of assets and liabilities. As such, it will result in pervasive changes to the way preparers collect, measure, analyze, and report fair value measurements. The feedback we have received from constituents has been consistent. Statement 157 is much more pervasive and its principles more challenging to practically implement than most entities had anticipated. We are hopeful that the Board has an appreciation for the complexity of certain implementation issues with which constituents are struggling. It is our understanding that the FASB created the Valuation Resource Group (VRG) in order to help the FASB staff and the FASB evaluate implementation issues associated with Statement 157, as well as other valuation issues generally. Unfortunately, many of the implementation issues submitted to the VRG were not resolved prior to the effective date of Statement 157 due to the timing of the VRG's establishment.

While Statement 157 is a principles-based standard, we believe that a number of the implementation issues raised to the VRG indicate that additional clarification around some of the key principles in Statement 157 is still needed (e.g., issues related to unit of account, valuation premise, and exit market). In addition, given its expansive scope, Statement 157 interacts with numerous other existing pronouncements, many of which are rules-based (e.g., FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities). This interaction has led to a number of implementation issues, as evidenced by the concerns that resulted in the Board's decision to scope out lease transactions to avoid unintended consequences (pending the ratification of proposed FSP 157-a, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions"). We do not expect the FASB to issue rules-based guidance as a means to address the various implementation issues associated with Statement 157, nor would we support such an approach. However, we do believe it would be prudent for the FASB to allow time for the VRG to serve the function for which it was created, namely recommending to the Board where

additional clarity might be needed with respect to certain key principles of Statement 157, and valuation issues generally.

Based on the discussions at the October 17, 2007 and November 14, 2007 Board meetings, it appears that some Board members believe the majority of implementation issues reside with nonfinancial assets and liabilities. We do not agree with this assessment. In our view, the issues associated with applying the fair value framework established by Statement 157 are equally as challenging for many financial instruments as they are for nonfinancial items. We believe this view is supported by the issues that have been raised to the VRG to date. Because Statement 157's guidance is based on principles, any clarification related to its application could have an effect on financial instruments as well as nonfinancial items measured at fair value. Therefore, we continue to have concerns regarding the application of Statement 157 to financial instruments when there appears to be significant diversity with respect to how certain fundamental principles are being interpreted.

Finally, while some Board members seemed to take comfort from the lack of issues surrounding the adoption of Statements 157 by early adopters, we caution against such generalizations. Given the resources and level of sophistication of the financial institutions that elected to early adopt the Statement, we would hesitate to generalize their experiences across a much broader range of constituents.

Notwithstanding our preference for a full deferral, assuming the Board does not reconsider its previous decision, Ernst & Young supports partial deferral of the effective date of Statement 157 through the issuance of the proposed FSP in final form.

## Additional Comments

The proposed FSP provides a deferral for "nonfinancial assets" and "nonfinancial liabilities". Our assumption is that nonfinancial assets and liabilities would include all assets and liabilities other than those meeting the definition of a "financial asset" or "financial liability" as defined in paragraph 6 of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159). If this was the intention of the Board it may be useful to cross reference to the definitions within Statement 159.

In addition, we noted that paragraph 8.g of the proposed FSP indicates that liabilities for exit or disposal activities initially measured at fair value under FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (Statement 146), would be eligible for deferral due to the nonrecurring nature of the fair value measurement. This example would seem to imply that all liabilities measured at fair value under Statement 146 are nonfinancial liabilities. It is unclear to us whether certain liabilities accounted for pursuant to Statement 146 (e.g., costs to terminate a contract before the end of its term as described in paragraph 15 of Statement 146) would be deemed to be financial in nature based on the definition of a "financial liability" in Statement 159. As such, we suggest that the Board clarify the example provided in the final FSP to specify which, if any, obligations measured at fair value under Statement 146 would not be deemed eligible for deferral.

Finally, irrespective of the decision reached by the Board on deferral, we believe it is important for the FASB to complete its analysis of the existing accounting literature (e.g., EITF Issues) affected by Statement 157 expeditiously. As part of this analysis, we recommend that the Board clearly articulate whether existing literature that utilizes terms such as "market value", that are similar to, but not explicitly, "fair value" measurements, is affected by the Statement. Without additional clarification, we would expect a presumption on the part of constituents that any term other than "fair value" would not be affected by Statement 157, under the assumption that these terms would have been amended to "fair value" in the applicable literature, as was done in the amendment to the measurement objective in FASB Statement No. 65, Accounting for Certain Mortgage Banking Activities, from "lower of cost or market" to "lower of cost or fair value".

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

Very truly yours,

Ernst + Young LLP