

Joe Vernuccio

From: Director - FASB
Sent: Thursday, April 02, 2009 11:59 AM
To: Joe Vernuccio
Subject: FW: Comment Letter: FSP FAS 157-e



LETTER OF COMMENT NO.

373

From: Scott Christensen [mailto:sr_christensen@hotmail.com]
Sent: Wednesday, April 01, 2009 5:54 PM
To: Director - FASB
Subject: Comment Letter: FSP FAS 157-e

I appreciate the opportunity to comment on the proposed FSP FAS 157-e. I have the following comments:

For trading securities, I don't think it should matter whether or not quotes received are based on distressed or orderly transactions. The fair value is what you can sell the security for and if you can't sell the security in a so-called "orderly transaction" then an orderly transaction-based fair value is not relevant. In such a situation, reporting trading securities that trade in distressed markets at orderly transaction fair value would be more appropriately labeled "fairy tale value" or "pick your own fair value." The market is the market and if it is distressed than the distressed nature of the market should be reflected in fair value. What about on the opposite side of the spectrum when complete idiots are driving up the price of securities like tech stocks in the late 1990s? Were those orderly transactions? Were those trades indicative of intrinsic value? Security markets clearly have moments of inefficiency, but ignoring these periods of inefficiency would undermine the concept of fair value and would decrease the comparability and reliability of financial statements as valuations for identical assets would differ significantly among issuers.

Fair value is not the appropriate measure for "available for sale" debt securities that the issuer has not committed to sell. Many issuers are forced into this FAS 115 category because they can't say with a straight face that if the price of the security increases above their cost basis they won't sell it, so under FAS 115 they don't have the intent to hold to maturity and must classify the securities as available for sale. Calling these securities "available for sale" is not accurate as most of the time issuers would only sell if they can generate a required return, which usually only occurs when market prices increase and/or the security nears maturity. These securities should not be carried at fair value. Instead, similar to their counterparts, whole loans held for investment, they should be carried at amortized cost. Only when an issuer commits to sell a debt security or is in a position where it could be forced to sell a debt security should it be carried at fair value. Markets are clearly inefficient from time to time and issuers should not have to carry instruments at fair value that they don't intend on selling. Doing so distorts the financial statements and creates unnecessary volatility in financial statements and financial markets.

To cure the problem at the root level, the Board should remove the "orderly transaction" disclaimer in their definition of fair value, maintain the existing mark to market requirement for trading securities, and prescribe the current loan accounting model for whole loans to investments in debt securities. The accounting model for whole loans is not under much scrutiny now, right? There is not much difference between the economics of holding a pool of whole loans for investment versus holding a security backed by a pool of whole loans for investment. The accounting should be consistent and it seems like the whole loan accounting model is working

much better in practice. Use the footnotes to provide investors with information that they can use to form their own opinions about the intrinsic value of financial instruments. To the extent possible, accountants should provide the facts and investors should form their own opinions. The more we force the accountants to provide opinions about extremely judgmental areas in the financial statements, such as internal valuations for troubled assets supposedly carried at fair value, the more criticism the profession will face as all opinions can be refuted. *It's time to cure the problem at the root level instead of digging ourselves deeper into the hole of public scrutiny.*

Scott Christensen

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