



October 9, 2008

Financial Accounting Standards Board  
401 Merritt 7 P.O. Box 5116  
Norwalk, CT 06856



LETTER OF COMMENT NO. 72

Dear Mr. Herz,

I appreciate the opportunity to comment on the proposed changes to FAS 157. Some quick background: I am not a CPA, but my firm, Savvysoft, does specialize in creating valuation models for exotic derivatives, and our software is used at a large number of leading financial institutions, hedge funds, corporations, GSEs, and accounting firms to price and risk manage their instruments, including for FAS 133 and FAS 157 accounting purposes.

In general, I agree with what I have read many proponents of fair value accounting are saying: that it's more important to know what an entity is worth than it is to artificially keep them afloat. It is unfair to investors (those who buy in, and those who sell to get out), and lenders, to distort the true value of a firm. While we will probably never have a perfect way to come up with this fair value, we are still obligated to do the best that we can.

That said, I believe the proposed amendment, specifically the example given, is inconsistent with the situation the example is discussing. That is, while the example is dealing with valuation in an inactive (another word for illiquid) market, it uses an estimate of illiquidity to price the instrument (it uses a 400 basis point liquidity premium (without, by the way, stating where the number comes from)).

I understand that one of the points of the amendment is to clarify that the exit price to be calculated should not be based on a forced liquidation or distressed sale. But if a firm is not forced to sell, then they are by definition able to hold the instrument to maturity. Thus, any loss they would incur due to illiquidity should not need to be taken into account if ignoring distress selling is an intent of the amendment. I propose therefore that if there is an illiquidity premium calculated at the time of purchase, to give the instrument a zero profit and loss at inception, then that illiquidity premium should not be adjusted in the future.

That's not to say a liquid bond should be marked at par even when interest rates have risen since it was issued, or even though the issuer has a greater chance of defaulting than they used to. Those factors do need to be accounted for since they represent fair value. But illiquidity is a different thing when the guidance says that forced sale transactions in an inactive market can be discounted, if not ignored. You see, illiquid markets, and an illiquidity premium, are just two points on the same continuum.

I realize this is a radical proposal, and in truth it is probably too extreme. However, it is likely that it better reflects reality, better reflects the fair value of an asset (or liability) than the example as given in the proposed amendment. My hope, by the way, is that the comments received will be considered, even in the current climate, and that the amendment will not be rushed out the door simply to allow firms to report September 30 earnings. That would be a shame.

Sincerely yours,

Rich Tanenbaum  
CEO, Savvysoft