



LETTER OF COMMENT NO. 326

To: Adrian Mills; Diane Inzano; Joseph Vernuccio; Kristofer Anderson; Mark Trench; Meghan Clark; Russell Golden; Vita Martin; Wade Fanning

Subject: FW: File Reference: Proposed FSP FAS 157-e

From: John Dalton [mailto:jmldalton@yahoo.com]

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To: Director - FASB

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FASB 157-e will substantially decrease the value of financial reporting, in many cases making it worthless. The proposal fails because it fundamentally confuses distressed transactions (such as a forced liquidation) with distressed asset classes (such as auction-rate securities). The idea that an increase in liquidity risk premiums is abnormal is flawed at its essence: illiquid securities require discounting.

The use of the income approach to estimate fair value will result in illusory inflated values. The valuation models that would be used to mark credit default swaps would be even more absurd. This ruling will mark the beginning of unqualified junior analysts creating arbitrary models to justify valuations required to paint balance sheets and income statements.

Banks seeking relief for their capital requirements should petition the regulators, and not seek to obfuscate their capital positions with opaque accounting rules. The given example of the CMO marked as if there were willing buyers and sellers is an excellent example of a security that requires a substantial discount. No change to the current rule is necessary..

The two step standard is so vague that it will be applied to many securities that should not receive such discount, such as pink sheet equity securities. Inactive markets should not be identified, since inactive markets require illiquidity premiums. Distressed transactions should be identified based on their valuation relative to market activity. Thus, a transaction in an inactive market should not be ignored unless it is not comparable to other transactions in the market. This may indicate that it is based on a genuine distressed sale *relative to the inactive market*, for example, a liquidation of a division. The current ruling gives sufficient leeway in this regard.

In general, it is inappropriate to determine if a market is active. Prices in the market will reflect the inactivity of the market and should be reflected on the balance sheets of the asset holders.

This rule should be rejected. It provides costs the users of financial statements substantially by obfuscating the true value of the assets on a balance sheet and will ultimately result in additional risk premiums being applied to holders of illiquid assets because their balance sheets are inflated.

The current rule will result in significantly more accurate financial reporting.

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