



PCPS

PRIVATE COMPANIES PRACTICE SECTION

April 1, 2009

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LETTER OF COMMENT NO.

346

Re: March 17, 2009 Proposed FASB Staff Position (FSP) FAS 157-e, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed FSP and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC generally welcomes the guidance provided by the Proposed FSP. Previously, individual TIC members had commented with respect to Proposed FSP FAS 157-d, *Determining the Fair Value of a Financial Asset in a Market That Is Not Active*, which introduced the term "inactive" market, that a definition of inactive market should be developed, as it can be interpreted in many ways. Specifically, the following informal comments were sent to the Board in an e-mail dated October 06, 2008, with the subject heading File Reference: Proposed FSP FAS 157-d, Individual response from TIC member Phil Santarelli:

The only issue that I have, and I may be missing something in the standard, is the concept of an "inactive market." The standard discusses a principle of most advantageous market but does not describe an active market. The standard also discusses forced or liquidation sales but not an inactive market. The FSP introduces the concept of an inactive market, which is new to the





standard, in paragraph 8. It then describes in paragraph A32B what an inactive market condition might be by using a specific illustration. Would it not be better to introduce a definition for inactive market into the body of the standard either as a footnote to paragraph 7 or another paragraph entirely? Maybe inactive markets are considered a common term and this should be a principle based interpretation. But some concepts/definitions, such as very low volume/no volume of trades compared to historical levels, etc., might be useful in applying the guidance. Inactive markets may exist too much in the eye of the beholder.

While the need for principle-based standards and professional judgment in applying such standards is clear, it is apparent in the current market conditions that preparers and practitioners are having much difficulty in achieving common ground in applying principles and judgment. As such, the additional guidance no doubt will be welcomed by many preparers and practitioners within TIC's constituency. We believe it is an open question as to whether users will be of the same mind.

RESPONSES TO STAFF QUESTIONS

1. *Is the proposed effective date of interim and annual periods ending after March 15, 2009, operational?*

This is a very short window for implementation. While the largest issuer financial institutions may have the resources to prepare the analysis required in step 1 of the guidance, smaller banks will be challenged to make these assessments with respect to their hard-to-value debt obligations.

TIC recommends that the implementation date be deferred to interim and annual periods ending after June 15, 2009, with earlier application permitted.

2. *Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in this proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?*

This FSP clarifies guidance originally provided in Proposed FSP FAS 157-d. As such, TIC believes that the current proposal will be useful to preparers and practitioners in





dealing with assets that have been difficult to value as a result of the recent market conditions.

However, in order for this guidance to improve financial reporting, TIC believes that the guidance should include additional disclosures as follows:

- A quantitative disclosure as to the amount of assets within Level 3 for which the Step 1 determination has been made.
 - A description of the relevant assumptions that were used for the Level 3 valuations applied to the assets determined in Step 1, which would include sufficient detail for the users of the financial statements to apply their own assumptions when analyzing the valuations.
3. *Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transactions.*

We believe the two-step model as presented will be operational for preparers and practitioners.

4. *Are the factors listed in paragraph 11 of the FSP that indicate that a market is not active appropriate? Please provide any other factors that indicate that a market is not active.*

The factors as presented in paragraph 11 are appropriate.

5. *What costs do you expect to incur if the Board were to issue this proposed FSP in its current form as a final FSP? How could the Board further reduce the costs of applying the requirements of the FSP without reducing the benefits?*

We expect that the costs will be quite high in implementing this guidance as preparers will need to establish internal control systems and processes to ascertain information with respect to the inactive market factors listed in paragraph 11. These systems will need to be sufficiently robust to satisfy their auditors. Once the determination has been made, the application of the level 3 models will likely require additional costs in establishing adequate internal controls and the required documentation supporting the assumptions used in the models.



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It is because of the need to develop these systems in a robust fashion, that TIC believes the implementation date is too aggressive. We recommend the June 15th effective date, with earlier implementation permitted.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee

