From: Aberdeen, Jeff [mailto:Jeff.Aberdeen@CommerceBank.com]

Sent: Monday, October 06, 2008 10:53 AM

To: Director - FASB

Subject: Comment on FSP to Amend FAS 157 - FSP FAS 157-d



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## Dear Sirs:

After reading your proposed FSP to amend FAS 157, we have the following comments:

- You have indicated in paragraph 9a that fair value measurement objectives remain the same; i.e. the price that would be received by the holder of the financial asset in an orderly transaction that is not a forced or distressed sale at the measurement date.
- Your example describes the pricing using discounted cash flow of a BBB CDO security in a distressed market in which the discounted cash flow model uses inputs for market interest rate, credit risk and liquidity risk. Further in the evaluation the entity also considers indicative quotes and in essence uses the average of the cash flow model and the broker quote in determining a fair value.
- Given the definition in paragraph 9a of fair value being the price to be received by a holder in an orderly transaction that is not forced or in a distressed sale, we do not think that an appropriate definition of fair value has been determined in a distressed market situation and we do not think the proposed FSP addresses this appropriately.
- In normal times where the market is not stressed, fair value is determined by looking at inputs for interest rate and credit risk. Liquidity risk is normally a minimum risk factor often not impacting fair value at all and often not used in discounted cash flow models because it is not significant.
- We believe that in a distressed market situation such as the current conditions we all are experiencing, we should not be required to assume liquidity risks in fair value models and this should be spelled out in this FSP. This would then be comparable to assumptions made when markets are functioning normally.
- Today liquidity risks cannot be reasonably or reliably estimated as evidenced by the large range of results of mark downs we are seeing being reporting by numerous entities. Further in practice, most accounting professionals would not have ability to come up with complex models to try and estimate such liquidity factors- making this process impractical and unreliable. Creating accounting requirements such a liquidity factors which are so complex as to require high costs for outside consultants to calculate estimates such as liquidity is not a cost beneficial approach.
- Also the idea that in valuing a CDO or any other security, a valuation approach would be to use the average of a discounted cash flow model and nonbinding broker quotes is much too complicated, and suggests that companies have to use unreliable broker quotes. By definition, if companies are using their own models, then they are at a level 3 calculation and should not be required to use averaging or other techniques, other than just the models they develop. Companies already have to disclose the assumptions they use on the level 3 calculations and there should not be further requirements that they seek out nonbinding broker quotes etc and use averaging techniques; cash flows should be sufficient. Guidance on how to fair value assets needs to be practical and with the least amount of complexity as possible. The example of the CDO which compares a

discounted cash flow to a nonbinding broker quote will suggest to people that it is required to do both, and we don't feel this should be the case.

In summary, we believe that liquidity risk should be eliminated from the inputs to a fair value model in disorderly or distressed markets, such as the one we are currently in and in using cash flow models to determine level 3 fair values, there should be no other requirement (or example) to compare cash flow models to nonbinding broker quotes or any other information.

Thank you for your attention.

Jeffery Aberdeen, Controller Commerce Bancshares, Inc.