FSPFAS157D

LETTER OF COMMENT NO. 7

From: Gregory P. Hanson [mailto:gregoryphanson@yahoo.com]
Sent: Saturday, October 04, 2008 4:31 PM
To: Alicia Posta; Small Business Advisory Committee; Director - FASB
Cc: Paul Glotzer
Subject: RE: Comments on Proposed FSP FAS 157-d

Subject: Comments on Proposed FASB FSP 157-d

I have reviewed the proposed language for FSP 157-d that would amend FASB Statement 157, "Fair Value Measurements," for determining fair value in a market that is not active, and recommend that the FSP bring forward and expand the discussion and application of liquidity risk from a market perspective in the key principles of the FSP. Liquidity risk may also need further clarification in other FASB Statements as it relates to the preparer's own internal perspective on liquidity and capital resources in internal cash flow analyses used in the income approach, if used in the fair value measurement. Other than my recommendations, I support the proposed FASB FSP 157-d. These are my own views and not necessarily the views of other members of the Small Business Advisory Committee, or other organizations in which I am a member.

Although FSP 157-d mentions the need for appropriate risk adjustments that market participants would make, such as for nonperformance and liquidity risks, in a Level 3 fair value measurement, the discussion on liquidity risk needs to be expanded in the section describing the principles to be applied in the analysis. While near the end of the FSP, in the proposed paragraph A32F, there is a brief statement that liquidity risk is "...The compensation that a market participant receives for buying an asset that is difficult to sell under current market conditions....", the explanation needs to be expanded and discussed earlier in the principles section of FSP 157-d.

Liquidity risk has reared itself as a major fear in the market place today and is a contributor to day-to-day volatility in the market place. If a preparer concludes that a Level 3 analysis is most appropriate in determining the fair value measurement, and uses one of the discounted cash flow models, then further guidance would be helpful in making an assessment of liquidity risk as one of the important components to the adjusted discount rate used in the cash flow analysis.

I suggest that the Staff also consider whether to clarify either in this FSP or through one of the other Statements potentially clarifying considerations for the cash flow analysis, such as the financial ability of the preparer to hold the illiquid financial instrument through its entire period of contractual cash flows, if the income approach (present value technique) is being used in the analysis. Factors of liquidity and capital resources within a company change over time; thus, the preparer's own internal liquidity risk could also impact the analysis of the period of cash flows being used for the income approach.

Other than my recommendation for expanded and earlier discussion of liquidity risk, and my suggestion regarding factors to consider in the contractual cash flow analysis, I support the

proposed FSB 157-d to improve FASB Statement 157 for determining fair value in a market that is not active, and I commend the Staff for providing additional guidance and an example to assist in the application of FASB Statement No. 157 to fair value measurement in an inactive market.

Sincerely,

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