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March 31, 2009

Submitted Electronically director@fasb.org

Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position FAS 157-e, Determining Whether a Market is Not Active and a Transaction is Not Distressed

Dear Mr. Golden:

The Vanguard Group, Inc.¹ appreciates the opportunity to comment on Proposed FASB Staff Position FAS 157-e ("Proposed Guidance") for making fair value measurements more consistent with the principles of FASB Statement of Accounting Standards No. 157, Fair Value Measurements ("FAS 157").

As a large institutional investor in the capital markets on behalf of our mutual fund shareholders, Vanguard supports efforts of the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission ("SEC") to provide investors credible and transparent financial information. Toward that end, we strongly support financial reporting that requires the use of mark-to-market accounting to measure the value of financial instruments.

However, we do not believe that the Proposed Guidance would provide greater credibility and transparency of financial information. On the contrary, the Proposed Guidance would require companies to replace objective, verifiable valuation inputs with subjective judgment and undisclosed methodologies for extended periods of time. Although we are not opposed to additional regulatory guidance in the form of factors for determining whether a market is active, we disagree with the approach of the Proposed Guidance which would preclude reliance on market value indicators for significant periods of time in favor of highly subjective judgments of value at the discretion of a company's management.

Vanguard Supports Mark-to-Market Accounting Standards

Vanguard supports financial reporting that requires the use of mark-to-market accounting to measure financial instruments. Mark-to-market or fair value accounting serves the interests of investors, including mutual funds, by requiring companies to report a transparent and credible value of financial

¹ Vanguard offers more than 150 U.S. mutual funds with total assets of approximately \$1 trillion. We serve approximately 19 million shareholder accounts.

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instruments regardless of the direction of the markets. We believe that mark-to-market reporting facilitates better investment decision-making and that millions of mutual fund shareholders at Vanguard and other fund complexes benefit from financial reporting that reflects the fair value of their mutual fund portfolio investments.

The Proposed Guidance reverses prior mark-to-market accounting guidance by requiring reporting companies (including companies in which our mutual funds invest) to rely on management's judgment to value assets for potentially significant periods of time on the basis of subjective determinations that current market transactions are "distressed." Requiring that companies move away from market valuation and use less transparent valuation techniques that are subject to highly variable management assumptions will create less transparency in financial statements and could harm investors.

Currently, when market prices are available, FAS 157 requires firms to use those prices to estimate fair value. If market prices are not available, firms must estimate fair value using valuation models that maximize the use of observable market inputs. If observable market inputs are not available, FAS 157 permits the use of unobservable inputs. FASB Staff Position 157-3 ("FAS 157-3") allows companies to use distressed market prices as legitimate inputs to the valuation process. FAS 157-3 presumes that markets are active and clarifies the application of fair value measurements during periods of inactivity.

The SEC staff likewise has indicated that transactions in inactive markets may serve as inputs when measuring fair value (but would likely not be determinative), and the fact that a transaction is distressed or forced should be considered when weighing the available evidence. The SEC staff has recommended that fair value requirements be improved through development of best practices guidance for determining fair value in illiquid or inactive markets, including guidance regarding "when observable market information should be supplemented with and/or reliance placed on unobservable information in the form of management estimates" (emphasis added).

The Proposed Guidance departs significantly from FAS 157-3. It establishes a presumption that markets are not active and requires valuation based on significant judgment of management for extended periods. Paragraph 11 of the Proposed Guidance lists factors that indicate a market is inactive, such as few recent transactions, abnormally wide bid-ask spreads, and quotations that are not based on current information. If those factors are present, the reporting entity "must presume that a quoted price is associated with a distressed transaction" unless there is evidence that there was time to market the asset and there were multiple bids for the asset. If both of the latter factors are not present for a given quoted price, then the Proposed Guidance requires that the entity consider the quoted price to be distressed and requires that the entity use a valuation technique other than one that uses the distressed quoted price without significant adjustment.⁵

² FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (Oct. 10, 2008).

³ SEC Office of the Chief Accountant and FASB Staff Clarifications on Fair Value Accounting, Press Release No. 2008-234 (Sept. 30, 2008).

⁴ SEC Report to Congress on Mark-to-Market Accounting (Dec. 30, 2008).

⁵ See Paragraphs 13 and 15 of Proposed Guidance.

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We are concerned that the Proposed Guidance could promote inconsistent reporting and undermine the valuation of assets for which the market has not deteriorated. It is unclear what would constitute "few" transactions or "abnormally wide" spreads. The application of those standards could vary from reporting company to reporting company for the same securities and markets. Instruments that have been marked to market for years could be treated as distressed under these standards. For example, some bonds that meet a number of the Paragraph 11 factors under ordinary market conditions would be presumed to have prices associated with distressed transactions, requiring companies to replace market quotes and independent pricing services with management judgment and variable assumptions.

Most importantly, the Proposed Guidance signals a shift away from the most reliable evidence of value. FAS 157 expresses a preference for market and other objective indicators of value for a reason; the prices that willing buyers and sellers agree to are by definition the true indication of value. The fact that buyers are unwilling to pay what banks and other holders are demanding for mortgage- and asset-backed securities does not mean that the market is "distressed" and that banks and others should be given freedom to value the assets as they see fit, particularly for extended periods of time. Accounting guidance that moves away from the use of independent market indicators is less transparent and less credible for investors.

The Proposed Guidance Poses Significant Operational Challenges for Mutual Funds

We share many of the concerns expressed by the Investment Company Institute ("ICI") in its comment letter on the Proposed Guidance ("ICI Letter"). In contrast to operating companies, mutual funds calculate a share price every day based on the valuation of the fund's portfolio securities. If adopted as proposed, the Proposed Guidance would present significant operational challenges for mutual funds if it were determined that fixed income pricing service information could not be used or relied upon because the fixed income market was presumed to be inactive and all quotes considered distressed. Under these conditions, mutual funds would be required to fair value their fixed income securities every day without the ability to rely on market value indicators such as broker quotes. We agree with the ICI Letter that the criteria for assessing inactive markets would be particularly burdensome in the context of mutual funds and other entities that apply FAS 157 to value large numbers of securities on a daily basis. We also agree with the ICI Letter that the Proposed Guidance is too prescriptive in its presumption that inactive markets are distressed, and we believe that the current requirements of FAS 157 that allow for the reasonable application of judgment are appropriate and sufficient in the context of mutual fund valuation.

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⁶ Paragraph 11 of Proposed Guidance.

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If you have any questions or would like any additional information, please do not hesitate to contact either of us.

Sincerely,

/s/ George U. Sauter Chief Investment Officer The Vanguard Group, Inc.

/s/ Thomas J. Higgins Chief Financial Officer The Vanguard Funds

cc: Robert H. Herz Chairman, FASB