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June 1, 2009

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**RE: Proposed FASB Staff Position FAS 157-f, “Measuring Liabilities under FASB Statement No. 157” (File Reference: Proposed FSP FAS 157-f)**

Dear Technical Director:

We appreciate the opportunity to provide comments on the proposed FASB Staff Position FAS 157-f, “Measuring Liabilities under FASB Statement No. 157” (the “proposed FSP”). We generally agree with the guidance set forth in the proposed FSP and believe that it achieves the Board’s objective of providing appropriate guidance on fair value measurements of liabilities under FASB Statement No. 157, *Fair Value Measurements*.

We have provided a number of suggestions for clarifying certain aspects of the proposed FSP in the Appendix to this letter.

If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419.

Sincerely,

**KPMG LLP**

## Appendix

### Proposed FASB Staff Position FAS 157-f, “Measuring Liabilities under FASB Statement No. 157” (File Reference: Proposed FSP FAS 157-f)

This Appendix to our attached letter describes a number of clarifications and editorial suggestions that we believe would significantly improve the understandability of the proposed FSP.

#### *Entry Price Measurement Attribute*

Item d of paragraph 9 purports to describe additional valuation techniques that would be consistent with the principles of Statement 157. The second example listed in that subparagraph is “a market approach, such as a technique that is based on the amount the reporting entity would receive if the reporting entity was to transfer or enter into the identical liability at the measurement date.” That description appears to establish an alternative *measurement objective* for fair value measurements of liabilities, rather than describe a *valuation technique*, and that alternative measurement is based on the current entry price for a liability (i.e., the price that would be received to enter into the identical liability) instead of the current exit price.<sup>1</sup> We believe that the current entry price measurement objective should be characterized as a practical expedient to avoid confusion with the basic exit price principle of Statement 157. That characterization would be consistent with the guidance in paragraph 9(a) of FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, as amended by Statement 157. The original entry price measurement attribute in that Interpretation (i.e., “the premium received or receivable by the guarantor”) was retained when Statement 157 was issued, but that guidance was amended by Statement 157 to characterize it as a practical expedient.

Item d of paragraph 9 characterizes the current entry price measurement attribute as an example of a market approach. It is not clear why a current entry price measurement would be an example of a market approach. An entity could measure the current entry price of certain liabilities using a discounted cash flow method or other form of an income approach valuation technique.

Item d of paragraph 9 also refers to “the amount the reporting entity would **receive** if the reporting entity was to **transfer or** enter into the identical liability at the measurement date.” If the reporting entity were to transfer an identical liability at the measurement date, it would be required to pay the transferee, it would not receive payment. If the Board retains that guidance, the words “transfer or” should be deleted.

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<sup>1</sup> Refer to paragraph 16 of Statement 157, which describes an entry price as the price received to assume a liability and contrasts it with fair value defined as the exit price.



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***Exclusion of Restrictions on Transferability of an Instrument When Traded as an Asset from Fair Value Measurements of the Instrument as a Liability***

The FSP should clarify what is meant by the guidance in paragraph 10c, which would require entities to consider whether adjustments are required to the price of an asset if the quoted price of that asset includes the effect of a restriction on transferability. For example, the Board should clarify whether entities would be expected to report a day 1 loss upon issuance of a debt instrument that is recorded at fair value whenever the investor (lender) is initially restricted from transferring the instrument. Additionally, it would be helpful to reconcile the guidance in paragraph 10c with the guidance in paragraph 11 of the proposed FSP, which addresses restrictions on the transferability of liabilities. A restriction on an investor's ability to transfer a debt instrument would not only be reflected in the price at which the instrument would be traded as an asset; such a restriction would also be reflected in the price that would be received by the issuer of the instrument as a liability.

***Characterization of Restrictions on the Transferability of a Liability***

The proposed FSP uses the term *contractual restrictions* in the document. However, *legal restrictions* may also prevent an entity from transferring a liability. For example, an entity may not be able to eliminate its legal obligation to perform environmental remediation activities by paying a third party to undertake those activities on its behalf in the future. Accordingly, we recommend that the FSP use the general term *restrictions* and clarify that the term encompasses both contractual and legal restrictions on transferability.

***Consideration of Bid and Ask Spreads When Measuring a Liability Based on its Quoted Price When Traded as an Asset***

Statement 157 requires entities to establish policies for measuring assets and liabilities using bid and ask pricing information. For example, some entities might measure long positions (assets) using bid prices and short positions (liabilities) using ask prices. We believe that the final guidance should clarify that an entity should apply its bid-ask spread pricing policy for measuring liabilities, even in circumstances in which the liability is otherwise measured based on its quoted price when transacted as an asset pursuant to paragraph 9 of the proposed FSP.

***Other Editorial Items***

We believe that the guidance in items b and c of paragraph 9 of the proposed FSP could be revised as follows to clarify that the phrase "in markets that are not active" applies to both of the items listed in each of those sentences:

"b. In markets that are not active, ~~t~~The quoted price of the identical liability or the identical liability when traded as an asset ~~in markets that are not active.~~

c. In markets that are not active, ~~t~~The quoted price for similar liabilities or similar liabilities when traded as assets ~~in markets that are not active"~~



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Paragraph 13 of the proposed FSP is titled “Disclosure.” However, there do not appear to be any new disclosure requirements in that paragraph. While we recognize that one of the purposes of the fair value hierarchy is disclosure, we believe this paragraph would be better titled as “Fair Value Hierarchy” consistent with Statement 157, and included in the same section of the Codification as paragraphs 22 and 23 of Statement 157 (Subsequent Measurement (820-10-35)).

In addition to the above matters and any necessary corresponding changes, we recommend the following edits to the proposed amendments to Statement 157 that are included in Appendix A of the proposed FSP:

- The first sentence of proposed paragraph 15B would provide guidance on identifying a liability’s level within the fair value hierarchy. However, the fair value hierarchy is not described until paragraph 22 of Statement 157. Therefore, we suggest that the discussion of the fair value hierarchy in the first sentence of proposed paragraph 15B be moved to paragraph 24 of Statement 157.
- Please consider deleting the word “Therefore,” at the start of the first sentence of proposed paragraph 15D
- Paragraph 24 defines Level 1 inputs in general and paragraph 24A addresses considerations specific to liabilities. Paragraph 24A should follow paragraph 24. In the proposed amendments to Statement 157, paragraph 24A appears to be presented before paragraph 24.
- Example 13 of the proposed amendment to Statement 157 appears to alternate between describing a single debt security with a par amount of \$2 million and 2,000 debt securities with a par amount of \$1,000 per security. We suggest using consistent language throughout the example.
- Example 14 of the proposed amendments to Statement 157 (paragraph A32R) states that “Because Entity C’s obligation is a financial liability, Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability, because Entity C believes the interest rate already captures these considerations.” We believe that this proposed language may cause confusion about the need to consider appropriate risk premiums for financial liabilities in general. In the context of this example, we recommend using language similar to footnote 17 of FASB Statement No.146, *Accounting for Costs Associated with Exit or Disposal Activities*, which states “in this case, a risk premium is not considered in the present value measurement. Because the amounts of the cash flows will be fixed and certain as of the termination date, marketplace participants would not demand a risk premium.”