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October 12, 2009

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

File Reference: No. 1710-100 – Proposed Accounting Standards Update, *Improving Disclosures about Fair Value Measurements*

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), *Improving Disclosures about Fair Value Measurements* (the "Proposed ASU"). We support the Board's objective of promoting high quality and transparent disclosure of fair value measurements under ASC 820, *Fair Value Measurements and Disclosures*. Further, we support one of the main objectives of the Proposed ASU – improving comparability of international financial reporting.

In considering the proposed disclosures for Level 3 fair value measurements, we acknowledge that they may have relevance for certain users of the financial statements. However, the proposal raises a fundamental question in our minds of how judgments inherent in the preparation of financial statements should be conveyed within the financial statements. For example, assumptions are used to determine stock based compensation, pension and OPEB obligations, useful lives of tangible and intangible assets, estimated loss contingencies, warranty reserves, inventory reserves, receivable allowances, and the like. In fact, assumption-setting for financial reporting purposes impacts virtually every caption in most financial statements. At present, each of these areas has been addressed on an individual basis, resulting in a mixed bag of disclosures ranging from disclosures that contain no sensitivity analysis to disclosures of sensitivity information within stipulated ranges. We are also sensitive to the significantly increasing disclosure burden being placed on preparers without a corresponding consideration of whether the cumulative disclosures are yielding decision useful information to users of the financial statements. With these thoughts as background, in our view the proposed sensitivity disclosures would best be considered as part of a broader disclosure project that includes an overall framework for when and how key assumptions and judgments are captured and conveyed in financial statements. For example, the FASB could address this element as part of its Disclosure Framework project. Its inclusion in a broader project will provide the time to consider the appropriate requirements of sensitivity analysis and their placement in either the financial statements or Management's Discussion and Analysis.

While we would prefer to consider the issue of additional disclosures as described above, we understand the Board's desire to improve the transparency of fair value measurements. If the Board decides to move forward with the requirement for sensitivity disclosures, we recommend that certain aspects of the Proposed ASU be clarified or revised to enhance the operationality of the requirements and the usefulness of resulting disclosures. As further discussed in the Appendix, our overall comments are summarized as follows:

• Disclosure of the effect of reasonably possible alternative Level 3 inputs may be beneficial to certain users of financial statements; however, we believe that these disclosures will be time consuming and burdensome for preparers to compile on a quarterly basis. Therefore, we suggest that the proposed sensitivity disclosures be required on an annual, and not a quarterly, basis.; and



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The proposed effective date will be difficult to operationalize in the period provided for transition. We
recommend the transition provisions be modified to apply to financial statements for interim and
annual periods beginning after December 15, 2009 except for the sensitivity analysis which we
recommend should be effective for annual periods beginning after December 15, 2009, with earlier
application encouraged.

A more detailed discussion of our specific comments on the proposal is included in the Appendix.

We appreciate the opportunity to express our views on the Proposed ASU. If you have any questions regarding our comments please contact Russ Mallett at (973) 236-7115 or Tom McGuinness at (973) 236-4034.

Sincerely,

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Appendix – Specific Comments on Proposed ASU, *Improving Disclosures about Fair Value Measurements*

Effect of Reasonably Possible Alternative Level 3 Inputs

Suggested Alternatives

As currently proposed, the sensitivity disclosures will be required for annual and interim reporting periods and while we believe they may be beneficial to certain users of financial statements, these disclosures will be time consuming and burdensome for preparers to compile on a quarterly basis. Thus, as a potential alternative to the proposed requirements, we recommend that the FASB consider requiring disclosure of the effect of reasonably possible alternative inputs for Level 3 measurements only on an annual basis. We believe this would meet the needs of the user community and alleviate some burden for preparers.

Nonpublic Entities

One of the primary reasons for including the requirement to disclose the effect of reasonably possible alternative Level 3 measurements was the nature of the input received from users of financial statements. The financial statements of nonpublic entities are typically distributed to a more limited group of users. Given the significant time and effort that may be required to prepare the sensitivity disclosures, we encourage the Board to separately evaluate the cost-benefit of the disclosures for nonpublic entities.

Transfers in and/or out of Levels 1 and 2

The Proposed ASU requires reporting entities to disclose the amounts of significant transfers in and/or out of Level 1 and Level 2 fair value measurements and the reasons for the transfers. Further, the guidance states that any significant transfers shall be presumed to have occurred as of the beginning of the interim period in which the transfer occurred. Currently, reporting entities must disclose transfers in and out of Level 3 when preparing their table disclosures for recurring measurements. The method for disclosing these transfers is defined based on an accounting policy wherein the reporting entity makes a policy election among the following conventions: beginning of the period, end of the period, and specific identification of the transfer date. We believe that as long as the accounting policy election is consistently applied, reporting entities should be allowed to continue with their current practices and apply their elections to all categories of transfers for which disclosure is required. In addition, this will conform the disclosure requirement and support comparability with international reporting, as such a requirement to presume that transfers occurred at the beginning of the period does not exist in IFRS 7, *Financial Instruments: Disclosures*.

Clarification of the Definition of Significance

The new disclosures included within the proposed ASU are required as long as they are considered to be significant. As stated in ASC 820-10-50-2 bb., c.3, and f.:



For this purpose, significance shall be judged with respect to earnings and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, with respect to total equity.

The language used in IFRS 7, paragraphs 27B(b) and 27B(e) is very similar. IFRS 7, Paragraph 27B(b) states:

For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

Paragraph 27B(e) states:

For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities or, when changes in fair value are recognized in other comprehensive income, total equity.

We understand that many in the international community have interpreted this requirement to mean that disclosures are not required unless the item is significant to both earnings (profit or loss) <u>and</u> total assets or total liabilities. We believe it would be helpful if the FASB clarified whether the same interpretation would be appropriate under the Proposed ASU or whether the FASB's intention is that the disclosure should be provided once the item is significant to any one of those financial statements components.

Effective Date and Transition

The FASB has proposed that the ASU be effective for interim and annual reporting periods ending after December 15, 2009, except for the sensitivity disclosures for Level 3 measurements, which shall be effective for interim and annual reporting periods ending after March 15, 2010.

The comment letter period ends on October 12, 2009 and, allowing for a reasonable deliberation period, a final ASU may be released in November 2009 at the earliest. This means that the disclosure requirements will be effective shortly after issuance. This does not provide preparers enough time to modify systems to provide the information required in year-end annual reports. In addition, as the disclosures will be required on an annual basis it will require disclosure of information for periods prior to the issuance of the guidance. Therefore, we believe that the effective date should be delayed until 2010 for all proposed disclosures to allow reporting entities with calendar year-ends to operationalize the requirements and have the opportunity to accumulate the needed data in the first period required.

Accordingly, we recommend that the Board modify the implementation date to be effective for reporting periods beginning after December 15, 2009, with earlier application encouraged. Further, consistent with our suggested alternative above, we recommend that the Board modify the implementation date for the sensitivity analysis to be effective for annual periods beginning after December 15, 2009, with earlier application encouraged.



Additional Comments

The FASB made amendments to the disclosure requirements in ASC 715, *Compensation - Retirement Benefits* to provide consistency in the disclosures for pension and other postretirement assets. We believe the FASB should clarify whether the disclosure requirements in this Proposed ASU will require an update to ASC 715 and whether such amendments will be included within the final ASU or amended at a later stage.