

October 12, 2009

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

Via Email to <u>director@fasb.org</u>

Audit - Tax - Advisory

Grant Thornton LLP 175 W Jackson Boulevard, 20th Floor Chicago, IL 60604-2687

T 312.856.0200 F 312 565 4719 www.GrantThornton.com

Re: File reference: 1710-100

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update (Update), Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements.

We support the Board's effort to improve disclosures about fair value measurements. However, as indicated in our responses to the Questions for Respondents, we do not support the requirement to disclose a sensitivity analysis for all Level 3 fair value measurements. However, if the Board does decide to move forward with a sensitivity analysis, we do not believe that such requirement should be applicable to nonpublic entities and "Smaller Reporting Companies" (as defined in Exchange Act Rule 12b-2).

Responses to the Board's specific questions in its Notice to Recipients

Question 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes referred to as sensitivity disclosures), the Board is seeking input from:

- 1. Financial statement preparers about their operationality and costs
- 2. IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7
- Financial statements users about their usefulness-more specifically, a discussion of how they would benefit from, and use, such disclosures.

While we agree with the need to provide financial statement users with additional information on Level 3 measurements, it is not clear from the proposed Update as to what the specific objective of providing a sensitivity analysis is and we do not believe that such a disclosure would be cost beneficial to prepare. Further, we note that the sensitivity disclosure in the proposed Update is significantly different than the sensitivity disclosure requirement in IFRS 7, *Financial Instruments: Disclosures*, and have noted a few potential implementation issues that arise



from these differences. We urge the Board to consider the differences and the practical implications of requiring a sensitivity analysis to all entities and all Level 3 measurements.

Objective of the sensitivity disclosures

The proposal is unclear as to the specific objective of disclosing the sensitivity of Level 3 fair value measurements. We believe that the objective should be more specific than the effect on earnings and should indicate how a financial statement user intends to utilize this information. For example, if the objective is to show the reliability of the fair value measurement, we do not believe that sensitivity analysis for specific factors will achieve that objective. Financial statement users would likely need additional information to understand the probability of each outcome in the range of the total effects. Alternatively, if the objective is to show how changes in significant inputs would affect earnings, we believe that the proposed disclosures would be difficult to interpret because changes in inputs are often highly correlated so that the effects of a change in one variable may be offset or enhanced by changes in related variables. For example, FASB Accounting Standards CodificationTM (ASC or Codification) Topic 860, Transfers and Servicing requires an entity to provide a sensitivity analysis for each significant input in isolation; however we note that many financial statement preparers often provide significant caveats along with the disclosures.

Consistency with IFRS 7

We continue to support the Boards goal of convergence. However, we believe that the proposed requirements related to the sensitivity disclosure is significantly different from the similar requirement in IFRS 7, as amended in March 2009, in the following respects.

- The requirement in IFRS is only applicable to financial instruments, while the FASB proposed approach would require disclosure for both financial and nonfinancial instruments (see further discussion in "Application issues for nonfinancial assets," below).
- The requirement in IFRS focuses on whether a change in one or more of the inputs (irrespective of whether the input is observable) to a reasonably possible alternative assumption would change fair value significantly, while the FASB approach focuses only on changing one or more significant unobservable input(s) (see further discussion in "Changes in inputs," below).

Application issues for nonfinancial assets

We believe that the cost of preparing the proposed sensitivity analysis for most nonfinancial assets measured at fair value will be significant and provide uncertain benefits to readers of the financial statements, especially in regards to the valuation of goodwill or when assets are evaluated using multiple valuation techniques. For example, we believe that the application of the sensitivity analysis could be especially burdensome when applying it to the first step of a goodwill impairment test such that a reasonably possible alternative may indicate that goodwill is impaired even when management's best estimate indicates that goodwill is not impaired. However, an entity would need to complete the second step in order to disclose the total effect of the changes in input(s).



Potential unintended consequences

We believe that the requirement to include sensitivity analysis in the disclosures could result in unintended consequences. As it relates to the valuation of both financial and nonfinancial items, there are often various valuation techniques that could be considered. A requirement to provide a sensitivity analysis may result in entities using models based on the ease of providing the required sensitivity disclosures. For example, it would be easier to adjust the inputs used in a Black-Scholes-Merton model than the inputs used in a binomial model.

There are also many different models that can be used to value financial and nonfinancial instruments. In applying the sensitivity analysis, it is not clear whether management would need to consider reasonably possible alternative inputs that are not applicable to its chosen valuation model. Analysis of all the reasonably possible variations across multiple models would be costly and may provide more information than a user would reasonably need to assess the valuation of financial instruments. We urge the Board to address this issue in a final standard if it includes a requirement for sensitivity analysis.

Changes in Inputs

If the Board elects to proceed with a requirement for sensitivity analysis, we believe that the requirement to disclose the effect of changing one or more significant inputs should be aligned with the requirements in IFRS 7 in the interests of reaching a consistent, converged answer. We do not believe the proposed requirement should only be limited to unobservable inputs because observable inputs could significantly impact the Level 3 fair value measurement. We believe that limiting the total effect of the sensitivity to only the significant unobservable inputs could result in a distorted view of the actual sensitivity of the Level 3 measurement. Further, we note that this proposed requirement is the same proposed requirement in IASB exposure draft that preceded the issuance of IFRS 7; however the IASB decided to not limit the disclosure requirement to unobservable inputs.

Reasonably possible

The proposal is not clear as to how the Board intends entities to interpret the term "reasonably possible." This term is defined in the Codification as "the chance of the future event or events occurring is more than remote but less than likely." We believe that the term reasonably possible, as defined in the Codification, is forward looking in nature. However, as discussed at the May 27, 2009 Board meeting, one Board member indicated that "the proposed requirement is not forward looking—that is, the requirement seeks to examine uncertainties around Level 3 fair value measurements at the balance sheet date."

Question 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosures of purchases, sales, issuances, and settlements during the reporting period. Is this proposes requirement operational? If not, why?

We believe that this disclosure is operational; however we recommend that the required categories not be limited to purchases, sales, issuances, and settlements as there could be other



items that impact the reconciliation. For example, we note that ASC 860-50-50-3 (reconciliation for servicing assets measured at fair value on a recurring basis) requires a similar reconciliation, but has additional required categories.

Question 3: Is the proposed effective date operational? In particular:

- 1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?
- 2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?

Sensitivity disclosure

We do not believe that the disclosure requirement to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements should be applicable to nonpublic entities and "Smaller Reporting Companies" (as defined in Exchange Act Rule 12b-2).

We believe that many financial statement users, except for sophisticated investors and analysts, could have difficulty understanding the parameters and implications of a sensitivity analysis. In other words, we do not believe that most financial statement users of nonpublic entities will find this information useful or be able to understand its implications, and thus believe the Board should consider this in its cost / benefit analysis.

In regards to smaller public entities, we note that the SEC exempts Smaller Reporting Companies from *Disdosures of Quantitative and Qualitative Information About Market Risk*, which includes disclosures about sensitivity. As noted in FRR.T.507.03, these entities were exempted based on "the relative costs of complying with these disclosures." We believe that the case for excluding nonpublic entities based on relative cost considerations is equally or more compelling.

Effective date of other disclosures

We believe that nonpublic companies should be given another year to comply based on the expected issuance of a final Update and the time needed to train personnel and upgrade procedures to implement the new disclosure requirements.

Other Drafting Suggestions

Amendments to other sections of the codification

If the Board decides to retain the fair value sensitivity analysis in the final Update, we believe that the Board should consider eliminating the sensitivity analysis disclosure requirement in ASC 860-20-50-4(c) and 4(d) that relates to a transferor's beneficial interests (including any servicing assets and servicing liabilities).



Disclosure of inputs

The examples in ASC 820-10-55-22A(c) do not appear to correspond to what is being requested. We recommend that ASC 820-10-55-2A(c) be modified as follows:

The nature and type of collateral, guarantees, or other credit enhancements of the item being measured at fair value, including the characteristics of the item being measured that are relevant to the determination of relevant inputs. For example, for residential-asset-backed mortgage securities, a reporting entity may conclude that meeting the objective of this disclosure requirement requires disclosure of items such as, but not limited to, the types of underlying loans (for example, subprime or home equity lines of credit), collateral, guarantees, other credit enhancements, the year of issuance, the weighted average coupon rate of the underlying loans, weighted average maturity of the underlying loans, geographical concentration of the underlying loans, and information about the credit ratings of the securities.

In addition, we recommend that the disclosures in ASC 820-10-55-22A(b) be clarified with the language of "including, but not limited to."

Scope exception for net asset value

We believe that the scope exception in ASC 820-10-50-2B should be incorporated into the disclosure requirement in ASC 820-10-50-2(f).

Definition and application of the term "class"

The Board should clarify whether the term class as it relates to loans in the proposed Update is intended to be more in line with the term (1) "portfolio segment" as used in the proposed FASB Statement, *Disdosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, (2) "class" as used in the proposed FASB Statement, *Disdosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, or (3) "major category" as used in ASC 310-10-50-3.

Transfers between Levels of the fair value hierarchy

ASC 820-10-50-2(bb) and 820-10-50-2(c)(3) would require disclosure of significant transfers in and significant transfers out of all levels in the fair value hierarchy to be disclosed separately. In addition, ASC 820-10-50-2(c)(3) requires an entity to disclose all transfers into or out of Level 3 (not just significant transfers) and thus we assume that this would mean that insignificant transfers into and/or out of Level 3 could be disclosed on a net basis. However, we note that the example in ASC 820-10-55-62, appears to indicate that all transfers into or out of Level 3 should be reported on a gross basis. For simplicity and to avoid confusion on what is meant by "significant," we recommend that the Update require that all transfers into and out (not just significant transfers) of all Levels in the fair value hierarchy be disclosed separately along with a discussion of the reasons for the transfers.



We appreciate the opportunity to comment on the proposed Statement and would be pleased to discuss our comments with the FASB staff. If you have any questions, please contact Mark K. Scoles, Partner, Accounting Principles Consulting Group, at 312.602.8780 or Mark.Scoles@gt.com; or Jamie Mayer, Senior Manager, Accounting Principles Consulting Group, at 312.602.8766 or Jamie.Mayer@gt.com.

Very truly yours,

/s/ Grant Thornton LLP