From: **CHARLES SMITH** To: **Director - FASB**

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It is necessary to clearly state that the following comments presented are soley my opinion, and should not be construed to pertain to policies of my employer. I provide my response following each question presented.

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Questions for Respondents

Question 1: This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:

- a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?
- b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.

Response to Question 1: a. I cannot perceive of a way to improve the understandability of the fair value measurement guidance in U.S. GAAP. To begin with, the lack of understanding by users of the Financial Statements of the nuance inherent in the definition of fair value looms large. How do you define a term, that appears to present one concept, but introduce the elements that makes the definition fail so miserably to identify the intended valuation. You aren't asking for realizable value, economic value, current value, or market value as those terms have been previously defined. You wish to introduce the concept of market risk, interest rate risk, and default risk into the valuation measurement, but fail to reflect the selling cost impact, the market impact of large transactions, limitations placed on market transactions through exchange rules and governmental laws. As an example, let us assume that a pension fund owns 20% of a company's trading stock (say 200 million shares). The market price quoted on that particular stock at the close of business on the reporting date is \$20. You claim fair value is \$4 billion dollars, yet the market would clearly not allow that price to be realized should the pension fund decide to divest itself of that asset. Considering that daily market trades seldom amount to more than 2 or 3 percent of the outstanding stock of a company, suddenly selling the 20% stake would crash the price, and the realizable value would be significantly less than the \$4 billion value you've chosen to assign, then reduce it further by the necessary selling costs, and recognize that the asset couldn't be sold in the market in that quantity due to exchange rules. So Financial Statement users are led to believe that the liquidity of the asset is greater than it really is; the expected realizable value is significantly greater than it really is; yet you've given the \$4 billion fair value the legitimacy that will fully mislead these users into believing that the Pension fund condition is better than it really is. Even when the quoted price is significantly undervalued and "Fair Value" makes the Statement of Position look horrid, the value is greater than will actually be realized. You have done a great disservice to the Financial Statement users in your definition of "Fair Value" and the subsequent guidance for its determination. Why doesn't your definition include the fact that selling costs are not considered? Why isn't it clear in the definition that the size of the holding and the subsequent impact that size transaction will have on the realizable value that will be received is not to be considered? It is stated elsewhere in the documentation, just not in the definition. You've defined "Fair Value" as:

" Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Then later, you stipulate that the amount received to sell, or paid to transfer is not to actually be those amounts, but are to ignore various elements that could significantly impact those values. How is this "improved understandability"? Shouldn't the definition be:

"Fair value is the price, (ignoring selling costs and other risks inherent in the selling process and the tax consequences of any gain or loss) that would be received (before paying necessary selling expenses and taxes, or receiving tax benefit) to sell an asset, or paid (ignoring related search expenses, and risks of locating willing market participants) to transfer a liability in an orderly transaction between market participants at the measurement date, as estimated by management of the company."

b. My response to a above touches on the unintended consequences. Knowledgeable user of the Financial Statements will ignore the accounting permutations and attempts at valuation. Only the unknowing will rely upon the accountants valuation attempts. Hence, the folks that require the "assistance" you are proposing will be the ones most mislead by your proposal. The next great crisis will arise as a result of "Fair Value" so misleading individual investors.

best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.

Response to Question 2: The financial crisis we are still recovering from, demonstrates that financial assets can have a "highest and best" use. Mortgage loans held for investment demonstrate a higher and better use of those financial assets than when used as collateral for risk transferring securities. This is because, the owner of the risk fully understands the risks, while the owners of the risk transferring securities had no idea of the risk levels acquired. In addition, the loans made, with the intent to securitize the risk, were not as carefully underwritten as the loans made by a portfolio lender who would retain ownership of the loan. However, how can you compute a "Fair Value" for the loans held for investment if there is no trading of such going on in the market and what premium would you expect to be reflected in the fact that the underwriting was more stringent; the collection efforts are designed to work with the borrower to collect as much of the loan amount as possible, rather than provide the servicer with as much income as possible?

Question 3: Do you agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders' equity? Why or why not?

Response to Question 3: It is understandable to require that an exchange of equity securities for the net assets in a business combination would require fair value of those securities. It is also understandable that subsequent valuation would be best rendered, considering the fair value of the asset held by others. However, does this not expose us to a slippery slope, where we identify a subpool of securities in shareholder's equity as being measured at fair value, while the remainder is measured at historical values? And if, in the future, it is deemed advisable that shareholder's equity should be the fair value of assets net of the fair value of liabilities, can we not find ourselves in the negative equity situation. Hence, the fair value of the equity would not represent the fair value of the assets the equity securities represent in the hands of investors. That would bring us back to measuring the fair value of the equity, and putting on the books, the fair value of previously unrecognized intangible assets. Fair value disclosures would not result in this fiasco of accounting, but forcing the fair values upon the Statement of Position would require it.

Question 4: The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.

- a. Do you think that proposal is appropriate? If not, why not?
- b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.

Response to Question 4: a: The response previously given to Question 3 touches upon my reservations with respect to this "exception" to the fair value measurement requirements. An entity could exist whose nonfinancial assets are funded by nonfinancial liabilities (equity) leaving the entirety of their financial assets to be funded by financial liabilities. This entity would definitely be matching the risks in the assets to the risks in the liabilities to the best of their ability. As a result, the net exposure would be minimal. Is the investing public served to have this entity show its net exposure to be zero one period, positive the next, negative a period or two down the road? Wouldn't it be better to require the assets to be fair valued, the liabilities to be fair valued, and allow the investors to perform their own analysis and comparison, rather than delegating that to the entity's management?

b: Most accountants would generally develop the fair value of the assets involved, the fair value of the liabilities, and net the differences for the disclosures, however, unless this approach is required, which your exception eliminates, the net of the assets and liabilities could be fair valued via some form of cash flow analysis, with an arbitrary discount rate. I am convinced the result would be less revealing.

Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?

Response to Question 5: I have previously addressed this. This is perhaps the greatest flaw in the fair value disclosure theories.

The size of an investment in securities will impact the amount a sale will realize. The mere identification of the seller, who holds a significant block of securities, will impact the price in the market. Quoted prices are generally established on minuscule volumes. The potential of a significant trade will adversely impact the price. Despite the Chief Accountant's reservations with respect to incorporating the size of the investment into the fair value measurement, I believe it is misleading to not reflect that impact.

Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a noncontrolling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.

- a. Do you think that proposal is appropriate? If not, why not?
- b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.

Response to Question 6: a: If the proposal is appropriate for Level 2 and Level 3 of the fair value hierarchy, then why would it not be appropriate for Level 1? In Q 5, you eliminate the use of a blockage factor, yet then want to introduce the same concept for Level 2 and Level 3?

b: I consider myself reasonably intelligent. However, I cannot determine what question is being asked here. The fact that a unit of account is not specified in Accounting literature does not eliminate the generally accepted measurement unit of an asset. Again, the idea of introducing controlling and non-controlling factors into the measurement of Fair Value is introducing the blockage factor you specifically prohibit. This is a clear failure to recognize a concept. The rules make no sense when concepts are not recognized.

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

Response to Question 7: Why would you not require an uncertainty analysis for unquoted equity instruments? Wouldn't that be the exact time that such an analysis would be of most value to the investor? Since I've already established that Fair Value measurement is misleading, and does not provide the investor with anything more than management's view of the value of the asset, or the obligation associated with the liability, introducing the "uncertainty analysis" helps to prove my point, and therefore should be required for every element of the analysis being undertaken in the measurement process. The disclosures should be in matrix form, with each element representing a column, and a minimum of three value adjustments being disclosed. In disclosing the fair value of a debt obligation, let the assumption that the debt will be repaid at maturity be fluctuated with probability of prepayment, or default. Let the interest rate impact be measured with a plus and minus of a single point. None of the resulting figures will be of any use to the user of the financial statements.

Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

Response to Question 8: I am confused as to why the uncertainty analysis is being restricted to Levels 2 and 3. I have previously noted the inherent uncertainty that accompanies a quoted price. Within an hour, I participated in 4 transactions in the same security, and all four transactions were completed at a different price. There is significant uncertainty associated with quoted prices on financial assets and liabilities, yet you choose to ignore them, but then insist on introducing uncertainty analyses when Level 2 or 3

valuations are disclosed. Considering that Levels 2 and 3 represent management's best estimate of the performance of the asset or liability, there is significantly less uncertainty in these results.

Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

Response to Question 9: Since the proposal is seeking to eliminate consistency and common sense from the accounting profession, the limited retrospective transition will do the least damage to the readability of the financial statements, and the amount of the adjustments should be clearly disclosed so knowledgeable analysts can back it out for their analyses.

Question 10: There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.

Response to Question 10: Isn't the purpose of the codification to reduce the need to flit from one section to another? Why then would you require a link to the transition guidance. Standardize the transition guidance. In creating the codification, you did more than provide a way to hide the number of rules and subsequent amendments that the Board issues, you also provided you with a way to standardize the handling of those rules and amendments.

Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

Response to Question 11: I can only respond to this question with a question: Do any of the topics amended by this proposed update apply only to public companies? Nonpublic entities tend to have more knowledgeable investors, and therefore these exercises in fair value measurement are pretty well wasted at these entities. The not-for-profits are more concerned with the immediate cash flows, and therefore, these fair value measurement exercises are a waste of time for them.

Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?

Response to Question 12: Constituents will never be fully prepared for the implementation of these amendments, and all of the subsequent amendments you will be introducing over the ensuing years, until it is finally realized that the idea of economic value, current value, market value and fair value have no place in the function of accounting. I understand the desire to provide the investor information, but these exercises do not result in any more information than management's discussion and analysis already provides. I pray that you realize the fallacy of fair value measurement prior to the complete destruction of the Capitalist system.