

800 Nicollet Mall Minneapolis, MN 55402 1830-100 Comment Letter No. 56

September 7, 2010

Via email: director@fasb.org

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

Re: File Reference No. 1830-100 – Fair Value Measurement and Disclosures (Topic 820), Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS

Dear Mr. Golden:

We appreciate the opportunity to comment on the Exposure Draft for the proposed Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820), Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (the "ED"). We appreciate the Board's efforts to converge to International Financial Reporting. However, we have several concerns with the ED, as summarized below:

- 1. We are concerned the level of revision and the conceptual changes to Topic 820 proposed in the ED will trigger broad reinterpretation of the fair value guidance.
- 2. We do not support the proposed uncertainty analysis disclosure.
- 3. We recommend enhanced guidance regarding the permitted exception to measure the fair value of a group of financial assets and liabilities that are managed on the basis of the reporting entity's net exposure to a particular risk.
- 4. We are concerned about the timing of the ED; in particular, whether the ED has received the appropriate level of stakeholder review, as well as what appears to be a disconnect with other proposed guidance and other efforts.

## Revisions, Conceptual Changes, and Reinterpretation Efforts

We understand the Board did not intend for the ED to change the application of most the requirements in Topic 820. Rather, the ED is intended to be a convergence exercise between US GAAP and IFRS. However, the ED appears to be a significant rewrite of Topic 820, and removes, revises and introduces certain valuation concepts such as discontinuing the use of the highest and best premise for financial instruments, revising the fair value measurement guidance for liabilities, and allowing for a broader

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portfolio level approach to value assets and liabilities that are managed together. We anticipate the revisions and conceptual changes to Topic 820 will require significant interpretation efforts by preparers.

The issuance of FASB Statement No. 157 ("SFAS 157") serves as an example of underestimating the effort to implement guidance that was perceived primarily as convergence and codification of existing guidance. Many practitioners believed FAS 157 would not significantly change the fair value measurement guidance. Ultimately SFAS 157 required significant clarification and interpretation by standard setters and resources to implement by preparers. We are concerned the amount of effort to implement the ED may also be underestimated.

## **Uncertainty Analysis**

We do not support the proposed uncertainty analysis disclosure requirement included within the ED. We also anticipate the costs required to prepare the uncertainty analysis will be significant and not justified by the minimal benefit.

Preparers are required to use their best estimate of market-based assumptions as inputs into their Level 3 measurements. As a matter of standard industry practice, Level 3 measurements are subject to numerous internal control process and procedures (e.g. management review, assumption back-testing, secondary pricing, etc.) prior to management's ultimate conclusion the fair value measurement is appropriate. Thus, Level 3 fair value measurements - by definition - represent management's best estimate. It seems inconsistent then to provide readers with alternate lower quality measurements. Existing accounting standards require disclosure about critical components of Level 3 estimates – perhaps further examples and guidance from the Board would help to increase the transparency of those disclosures, which would likely be more helpful to financial statement users than lower quality alternative measurements.

Additionally, many preparers do not have the capability to readily perform multi-variable sensitivity analysis within the timeframes required to meet ongoing financial statement filing deadlines. The costs associated with performing such an analysis (outsourcing or acquiring the resources in-house) would be very high and would outweigh the benefits of the disclosure.

## **Net Exposure Valuation Exception**

We note the ED provides for groups of financial assets and financial liabilities to be valued together, to the extent the entity manages the group of financial assets and financial liabilities as a net exposure. It would be helpful if the Board considered examples to illustrate the application of this approach. Further, it would be helpful if additional guidance was provided to address how the net long or net short fair value measurement would ultimately be allocated down to the appropriate unit of account, especially if the group includes both financial assets and financial liabilities.

## **Due Process and Timing**

The proposals in the Board's Exposure Draft for the proposed Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (the "AFI ED") would significantly increase the type of instruments carried fair value, and thus ultimately expand the items that will be in scope of the revised fair value measurement guidance proposed in the fair value measurement ED. We are concerned the fair value measurement ED, which was published during the second quarter reporting cycle, had a relatively short comment period, and was exposed shortly after the AFI ED, has not received the appropriate level of due process from stakeholders – particularly given the volume of other significant projects the Board has underway.

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Our second concern is the interrelationship between the ED and the AFI ED. A large portion of the expanded fair value measurements required under the AFI ED will include thinly or rarely traded instruments – for example, instruments such as small-business loans or community reinvestment loans. We anticipate enhanced fair value measurement guidance will be needed if the AFI ED is issued in its current form. We believe the ED should not be issued in final form until it can be fully analyzed in conjunction with deliberation of the AFI ED and related conclusions.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-5238 with questions or if you need additional information.

Sincerely,

Craig E. Gifford Controller