

Letter of Comment No: 40
File Reference: 1201-100
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September 7, 2004

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE:

File Reference No. 1201-100—Proposed Statement of Financial Accounting Standards; Fair Value Measurements

To Whom it May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee to represent those interests on accounting and auditing issues.

We are delighted to have the opportunity to provide input into your deliberations regarding the Proposed Statement of Financial Accounting Standards entitled, Fair Value Measurements.

Our committee is in basic agreement with the major provisions of the exposure draft and we believe it presents a sound framework for measuring fair value. However, we do have some questions and suggestions regarding the exposure draft and its implementation by practicing accountants and auditors.

Exposure draft paragraph 24, dealing with Level 3 estimates with significant entity inputs, gives CPAs the flexibility to apply the requirements of the document. However, we believe this section has the potential to become the source of audit issues. We believe the FASB should consider providing guidance about "verifiable" information for Level 3 estimates. Also, an additional auditing issue appears to center around the determination of management's intent as it applies to paragraph 13 (see example B7a). We believe the FASB should consider adding further guidance in this area in order to make the application more consistent.

When discussing multiple valuation techniques, the ultimate document should avoid giving undue weight to less credible methods. We believe this could be accomplished by modifying paragraphs C42 and C58 to make it clear that the concepts included therein are not relevant to Level 1 or Level 2 estimates of fair value.

We have some concern regarding the potential inconsistencies between Concept Statement No. 7, this exposure draft and other related pronouncements. We suggest that the FASB review and update the glossaries of all related documents so any unnecessary confusion is avoided.

Financial Accounting Standards Board File Reference Number 1201-100 September 7, 2004 Page Two

Our committee believes the FASB should address the inconsistency between Financial Accounting Standards and the AICPA Audit and Accounting Guide, Brokers and Dealers in Securities for valuation of a block of securities in this exposure draft. Paragraph 315 of SFAS 133 specifically "precludes an entity form using a 'blockage' factor" in determining fair value. Footnote 5 to the Exposure Draft appears to be implicitly amending this guidance. We believe this issue should be addressed in the final version of this Proposed Standard.

We believe some confusion continues to exist among accounting practitioners and other individuals regarding the use of the terms "market value" and "fair value." If the terms have the same meaning in our professional literature, this fact should be acknowledged in a professional standard so the confusion is eliminated.

One final issue concerns our belief that the guidance related to the application of the income approach in Level 3 estimates should be expanded. While examples 6-8 are helpful in assessing which valuation approach to apply, we feel they fall somewhat short in illustrating how to make certain calculations related to the income approach. Paragraphs A8--A19 provide some guidance on the application of present value techniques; however the example rate calculations would be difficult to apply to private businesses where little relevant market information exists. We believe expanded guidance is needed in this area so entities can consistently apply the fair value objective referred to in Issue 1. Our suggestion would be to expand Example 7 to show the calculation of the \$15 million value, especially in the area of rate determinations.

We appreciate the opportunity to provide our input to the standard setting process.

Sincerely,

C. Jeff Gregg, CPA

Chair, Professional Standards Committee

Texas Society of Certified Public Accountants