

**From:** Schryer, Tom [mailto:TSchryer@findleydavies.com]  
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**To:** Director - FASB  
**Cc:** Arjani, Neville  
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LETTER OF COMMENT NO. 7

Regarding your questions 1 through 5:

1 - Yes. I believe that while some statements might be delayed while people re-tool some asset figures it is far more important to have the impact of this guidance provide its relief as soon as possible. You might need to accommodate people whose constituents expect prompt information by allowing enterprises to report using unbiased (neither conservative nor fanciful) rough estimates initially if they inform readers that adjusted results will be available as soon as possible and describe how readers can get such updates.

However, enterprises should be encouraged to issue informal guidance as soon as they have reasonable estimates of the magnitude of the impact. Congress would appreciate this level of attentiveness.

2 - This guidance is absolutely necessary since Sarbanes Oxley has executives paralyzed with worries about personal risk. The asset values on some books recently have been so understated that everyone has been misinformed. Why ask why? It has clearly become necessary for the FASB to insist on more rational financial statements.

3 - Not quite. Two bidders making fire-sale bids would qualify but should not. I propose part b of Step 2 be changed to "A significant number of bids are made offering prices reasonably similar to what would result from a dispassionate analysis of the expected value of the asset. If these bids are fewer than the greater of i) 4 and ii) one third of the customary number of bidders then the number is not significant."

4 - Paragraph 11 is good, especially e). However, b) seems insufficiently clear since it applies to quotations that appear to be based on anticipated trends not yet demonstrated and to quotations based on trades from well before a change in the marketplace. People might choose either of these or both as their interpretations. Perhaps this should be changed to "Price quotations are based on trades that are not recent enough to reflect recent changes in the marketplace, or that implicitly anticipate significant changes from current conditions."

5 - Costs will be vastly less than the value provided to the average affected enterprise.

**Paragraph A32F**

Since A32D appears to already include adjustments for risk, A32E and A32F appear to be redundantly conservative. The example tranche is A-rated, right? This guidance will be used immediately and appears to include too much “panic” in the recipe. “Mark-to-Panic” accounting is what we are trying to avoid. I propose ending with “Because 7 percent is not a rate that willing buyers would accept and 15 percent is not a rate that willing sellers would accept, Entity A recognizes that the inputs used in paragraph A32D already anticipated risks and rather than recognizing risk redundantly and excessively uses 9 percent, a 75% weighting of 7 percent and a 25% weighting of 15 percent.” This way 9% (still probably too high) would be validated. I realize that the prior rate was 20% and this is making real progress. These issues are not even *present* to similar degrees in a properly functioning market so why are we treating the bid price as an “equal” in our unbiased statement? There is an ancient observation that some people cannot distinguish between “motes and beams” (dust particles and railroad ties, well-reasoned arguments and nonsense) comes to mind and actually illuminates this. Sound judgment requires recognizing the relative validity of each argument, not simply recognizing that two competing arguments have been presented.

This would still be incomplete and needs a final sentence since that answer might be completely irrational (66% if using 11% or 77% if using 9% when foreclosure recovery might be higher). Consider adding “However, a minimum value was applied to each evaluated contract to reflect the value from a worst-case perspective and the probability of that occurrence.”

### **Paragraph 29A**

I propose one addition (shown in bold type only to identify it) to the introduction: “When evaluating whether it is necessary to make a significant adjustment to quoted prices for identical or similar assets or liabilities in markets that are not active, ***or to ignore them entirely, ...***” My fear is that absolute fire-sale bid prices will be inappropriately blended in to asset values unless specific language alerts practitioners to the “null recognition” option, where appropriate.

### **Conclusion**

Recent usage of FAS 157 has been incredibly procyclical. This most recent panic is a good reminder of how fragile even the most robust economies are. Please try to remove procyclical aspects to the accounting rules as you identify them. Science has noted that the observer affects the outcome of the experiment. Here, accounting (essentially an art of observation) appears to have greatly affected the operation of the “economic experiment.”

Thank you for your attention and the real progress you have already made in this regard.

If you have any questions or comments please contact Tom Schryer, A.S.A. at 216/875-1917 or at [tschryer@findleydavies.com](mailto:tschryer@findleydavies.com). These are my personal comments and do not necessarily represent my firm's views.

Thomas G. Schryer, A.S.A. (pension actuary)

Findley Davies, Inc.

1300 East Ninth Street, Suite 850

Cleveland, OH 44114-1516

216/875-1917

[tschryer@findleydavies.com](mailto:tschryer@findleydavies.com)