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Sent: Thursday, October 09, 2008 7:03 PM
To: Director - FASB
Cc: O'Boyle, Maureen
Subject: Comments on clarification to FAS 157

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LETTER OF COMMENT NO. 90

Significant hurdles to determining fair value of securities in illiquid markets exist, beyond the simple example provided in the recent guidance. More relevant and practical guidance is needed for the average company which does not have access to all the data available to firms in the financial services industry.

First, the company I represent (a mid cap technology sector firm) has just completed a meeting with its auditors to discuss the company's approach for short term securities portfolio valuation at quarter end. Given the extraordinary market circumstances, the auditors were making the argument that all markets for the securities held by the company were illiquid relative to prior quarters, making the traditional methods for valuation using Level 2 inputs potentially inappropriate. The implication was that a level 3 approach was possibly needed for the following securities classes: asset backed securities/CDO's, commercial paper, and corporate bonds. The auditors recommended we either establish appropriate liquidity in the markets or consider the cash flow approach as described in your guidance. However, they were clear that the purpose of the cash flow approach was not necessarily to improve the marked value of the portfolio; in fact if this approach resulted in higher valuations, their use would potentially be discouraged.

While we argued that the markets were less liquid than in the past, but not neccesarily illiquid, we were tasked with proving this argument on a security by security basis, and we found that we did not have access to the data points needed to make this determination. After querying our custodial bank, who prices our portfolio using standard industry sources such as FT Interactive Data and Bloomberg, and asking our brokers and our investment managers for trading volume and bid-ask spread information on the 100 securities in our portfolio, all responded similarly: We don't have a way to obtain comprehensive market volumes or bid ask spreads in order to determine this, either on a general (by security class) or individual (by security) basis. The manager was only able to provide anecdotal evidence based upon trading volumes they had transacted directly, and the custodian responded with a communication from the pricing sources saying that these sources are standing by the prices generated by the pricing models which were in place prior to August 2008. We also learned that certain industry sources could provide volume statistics for certain asset classes but they would not be published prior to our reporting date (typically the data is published one quarter in arrears).

The point of this story is that the average filer does not have enough access to the data needed to gather the inputs for analysis, so broad and possibly unrealistic assumptions must be made. If the stated goal of FAS 157 is to provide "increased consistency and comparability in fair value measurements", then this goal will not be achieved as each filer uses a variety of dissimilar assumptions to value the same security. The end result will be inconsistent and non-comparable valuations across entities holding the same security. The use of level three inputs is relevant when considering investments such as an acquisition of a privately held company, for example, but the analysis falls apart when applied to generic and widely held securities in our current disorderly markets.

My next point conerns the example provided for valuing CDO's. You have offered some simplistic guidance to determining an appropriate discount rate but have failed to address the issue of how to determine the cash flows to which that rate would be applied. The interest rate on the CDO is known, as is the maturity date, but the average reporter does not have access to the underlying cash flows which are anticipated from each of the CDO investments it holds. At best, the only information available is a stale calculation of effective maturity. The cash flows are dependent upon the P&I payments required of underlying assets, default rates in the portfolio, future interest rate expectations relative to the rates on the underlying notes, and statistical assumptions about prepayments from other than interest rate changes (i.e, the auto loan note holder crashes his automobile or trades it in for a new more fuel efficient vehicle). While industry models may exist to estimate these cash flows, they are not readily available to the average corporate reporter and calculating these things for each security in the portfolio would certainly not be considered "practically expedient", even if all the information could be obtained.

The bottom line is that when it is impossible to reasonably estimate fair value because of a highly disorderly market and lack of access to information, the objectives of FAS 157 cannot be achieved. If level 3 analysis must be applied to most assets in a securities portfolio, the end result will not be "increased consistency and comparability in fair value measurements". As a result, significant additional, practical guidance must be provided quickly, or FAS 157 should be suspended until a resolution can be determined.