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Russell G. Golden FASB Technical Director, FASB 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

File Reference FSP FAS 157-d

## Dear Sirs and Madams:

The Financial Accounting Standard Board's (FASB) has worked hard to improve financial reporting. We applaud the effort – and its attention to due process. We do not believe suspension of fair value accounting serves any beneficial purpose and know that Congress, regulators and accounting standard-setters will continue to deliberate fair value measurements. Fair value accounting has its flaws and contains subjectivity, but the alternative is a reduction in the transparency of financial reporting.

Glass, Lewis & Co., LLC is an independent proxy and financial research firm that provides research to institutional investors that manage more than \$15 trillion. Our staff has many years of experience as financial analysts, as senior executives, corporate board members, independent auditors and financial-statement preparers. Their work relies on the audited financial statements and disclosures public companies provide to investors and the capital markets. It is vitally important to restore investor confidence in these statements. That means the numbers in them must reflect the economics of underlying events, be transparent enough so a reader can make an informed decision, and have a high degree of reliability and integrity.

We agree that the FASB should clarify the objectives of FAS 157, Fair Value Measurement, but also believe it could improve the specific objectives and disclosure requirements the FSP addresses. We think these points need clarification:

- Indicators of an inactive market.
- Change in valuation techniques.
- Required disclosure rather than strongly encouraged.

FAS 157 uses the term "active market" but does not define it. The Level 2 input discussion in FAS 157 includes a discussion about markets that are "not active." The FSP example uses the term "inactive markets" and concludes that Level 3 is more appropriate.

Is there a distinction between "not active" and "inactive"? Is "inactive" a greater degree of "not active"? Putting examples of "inactive" and "not active" markets in the key principles rather than in the implementation example would be less confusing. The examples do not need to be all inclusive.

For assets transferred from Level 2 to Level 3, the FSP, particularly the example, implies the income approach is the preferable fair value measurement. A change to a more subjective valuation technique is the result. Is the Staff saying a more subjective approach is in fact preferable? Is this contrary to the objective of a fair value hierarchy?

Disclosure that is strongly encouraged rather than mandated often leaves investors in the dark. FAS 157 states, "The reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements ..." We agree with that objective. To make it a reality, the quarterly disclosure must include:

- The conditions that caused assets to be transferred in or out of Level 3.
- An explanation of why a change in valuation technique is preferable when one occurs.
- The key inputs used in the new valuation technique.
- Which inputs are observable and which are not.

Thank you for your consideration. We would be pleased to respond to any questions.

Michael Lofing Managing Director, Financial Analysis Glass Lewis & Co., LLC