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LETTER OF COMMENT NO. 56

9 October 2008

Proposed FSP 157-D, Determining the Fair Value of a Financial Asset in a Market That Is Not Active

Dear Mr. Golden:

We appreciate the opportunity to comment on Proposed FASB Staff Position No. FAS 157-d, Determining the Fair Value of a Financial Asset in a Market That Is Not Active (the Proposed FSP). We recognize that financial markets are passing through extraordinary times. We support the FASB's decision to issue the Proposed FSP, and we support the Board's decision to shorten the comment period for the Proposed FSP. High quality standards depend on robust due process such as that employed by the Board. We believe that the shortened comment period is sufficient to provide the FASB constituency with an opportunity to fully vet the Proposed FSP and thereby meet the objectives of the Board's due process requirements.

We support the issuance of the Proposed FSP as it appears to provide more information on how Statement 157, Fair Value Measurements, should be applied. We believe that the Proposed FSP is consistent with the principles and spirit of Statement 157, and hence, we do not believe that it will change how those principles are being applied in practice. However, paragraph 6 of the Proposed FSP refers to the press release jointly issued by the SEC and the FASB on September 30, 2008 and explains that the guidance in the Proposed FSP is consistent with and amplifies the guidance contained in the press release. We believe that many parties found the guidance in the press release to be somewhat confusing, and it was only after the Proposed FSP was issued that such confusion was remedied. In our opinion, that confusion could have been avoided by issuing the Proposed FSP only.

In addition to the process point described in the previous paragraph, we have some minor comments related to the Proposed FSP.

Paragraph A32B states, "The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which collateralized debt obligation securities trade and then by a significant decrease in the volume of trades relative to historical levels as well as other relevant factors." If the FASB staff has particular facts in mind when it uses the phrase "other relevant factors," we believe that they should be made explicit; otherwise, we question the usefulness of that phrase.

Determining the Fair Value of a Financial Asset in a Market That is Not ActiveProposed FSP 157-D, Determining the Fair Value of a Financial Asset in a Market That Is Not Active 9 October 2008 Page 2 of 2

- The sentence in paragraph A32B beginning with the phrase, "That determination was made considering," is difficult to fully understand. We believe that the FASB staff intended to explain that there are no current observable transactions for the securities and the non-current transactions had the noted variability. We suggest that the FASB staff clarify that sentence.
- The concluding sentence of paragraph A32B notes that the security is classified within level 3 because "significant adjustments are required to determine fair value at the measurement date." While we understand the intent of the sentence, we recommend that wording from paragraph 22 of Statement 157 be used instead, for example, because of the use of unobservable inputs that are significant to the fair value measurement in its entirety.

In conclusion, we support the issuance of the FSP as well as the Board's efforts to provide further insights on fair value measurement in general, for example, through regular meetings of the Valuation Research Group. We also appreciate the opportunity to participate in the standard setting process. If you have any questions regarding our comments, please call John Gallagher at (203) 719-4212 or Mike Tovey at (203) 719-8164.

Kind regards

**UBS AG** 

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