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April 4, 2007

Chairman Robert H. Herz Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856



LETTER OF COMMENT NO. 17

By mail and e-mail to director@fasb.org

RE: Financial Accounting Series Invitation to Comment - Valuation Guidance for Financial Reporting

Dear Chairman Herz and Board Members:

We appreciate the opportunity to offer comments to the Financial Accounting Standards Board ("Board" or "FASB") on the "Financial Accounting Series, Invitation to Comment - Valuation Guidance for Financial Reporting ("Invitation"). The National Association of State Boards of Accountancy's ("NASBA") mission is to enhance the effectiveness of state boards of accountancy. In furtherance of that mission NASBA's Regulatory Response Committee offers the following comments.

The Committee believes that there is need for valuation guidance for financial reporting purposes. For example, the Invitation mentions that some constituents believe that valuation guidance for mortgage lending and tax matters may not be sufficient for financial reporting purposes. It would be helpful if the FASB were to provide some guidance to clarify the characteristics of valuations for financial reporting purposes since valuation guidelines for mortgage lending or tax issues may not, in fact, be appropriate for financial reporting. We note, for example, the standard of value for financial reporting purposes espoused by the FASB is "fair value" while the standard of value for most other purposes is typically "fair market value." This is a subtle distinction that has profound effects and is frequently a source of confusion within the accounting and valuation community.

Also, as the Board moves forward to replace historical cost concepts with valuation concepts for the preparation of financial statements, enhanced valuation standards and guidance will be needed to address the broad range of issues that will likely arise.

The Committee believes that guidance should generally be principles-based rather than rules-based. Broad standards are usually more effective than detailed guidance because financial statement preparers may engineer a transaction to meet detailed guidance but miss the economic consequences of the transaction. The reporting entity has the burden of choosing an appropriate estimation procedure to ensure that appropriate data for making the estimation is collected and to validate the results of the estimation. The Committee suggests that the use of examples accompanying the standards, or as separate interpretations to illustrate broad valuation concepts, is helpful to the preparer of financial statements.

NASBA recognizes, and continues to support, the Board as the only organization charged with the responsibility for establishing financial reporting standards for publicly-held and privately-held companies and

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non-governmental not-for-profit organizations. The FASB has the clear authority to issue valuation guidance for financial reporting purposes. Accordingly, a separate permanent standard setter should not be established, or funded, by the Board to issue valuation guidance.

The Board could issue valuation guidance without assistance from any external individuals or organizations if the Board had individuals within the organization who had the needed expertise. This approach would likely require a significantly more extensive internal organization than would be required if the Board called on well qualified outsiders for assistance in its deliberations leading to standard setting. No advantage would be gained by not consulting outsiders. Discussion of alternative approaches in a forum that includes knowledgeable experts should be helpful in the Board's decision-making process. The Committee recommends that the Board seek assistance from appropriate outside parties before issuing valuation guidance advice.

The Invitation sets forth two approaches to the use of outside guidance. First, "The FASB could issue valuation guidance with the assistance from resource groups for specific issues." Second, "The FASB could issue valuation guidance with the assistance from an organization structured similar to the FASB's EITF." The Committee believes that the first approach is preferable and should be adopted by the Board.

Using resource groups gives the Board the flexibility of choosing the persons best able to provide the assistance required. The Committee believes that members of existing recognized appraisal and valuation organizations can provide valuable guidance and would be appropriate persons to consider for resource groups. However, the Committee believes that the consulted organizations should not be given "unique role[s] in establishing valuation guidance." By the use of resource groups, the Board can select the individuals best suited to address the valuation issue or issues under consideration. Funding of the resource groups, or EITF-like group, if such option is selected by the Board, should be the sole responsibility of the Board.

The due process procedure of the position selected by the Board should follow the existing due process guidelines used by the Board for exposure drafts.

We appreciate this opportunity to respond to the Board's request for comments on Valuation Guidance for Financial Reporting.

Sincerely,

Wesley P. Johnson, CPA

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NASBA Chair

David A. Costello, CPA

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