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FSPAPB-1

LETTER OF COMMENT NO. 13

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

25 February 2009

Proposed amendments to the disclosure requirements in FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*
File Reference: FSP FAS 107-b and APB 28-a

Dear Mr. Golden:

We appreciate the opportunity to comment on the above referenced proposed FASB Staff Position No. FAS 107-b and APB 28-a, *Interim Disclosures about Fair Value of Financial Instruments* (the proposed FSP), which will increase the frequency of the disclosure requirements of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* (Statement 107). We understand the proposed FSP was developed to increase the comparability of information about certain financial instruments measured using different attributes, especially for financial assets affected by the recent market events and credit crisis. We agree with the Financial Accounting Standards Board (Board or FASB) that increasing the frequency of the disclosures about fair value of financial instruments would improve the transparency and quality of information provided to users of financial statements. We also support the FASB's previously announced longer-term joint comprehensive project with the International Accounting Standards Board to address the complexity in existing accounting standards related to recognition and measurement of financial instruments. In short, we unequivocally support greater transparency and enhanced comparability of financial statements for use by investors and others around the world.

We do not believe, however, that entities for which the use of financial instruments is insignificant should be subject to the interim disclosure requirements of the proposed FSP. We also have concerns with the short timeframe associated with the exposure and implementation of the proposed FSP, as well as the proposed requirement to disclose for all interim periods subsequent to initial adoption the methods and significant assumptions used to estimate the fair value for all financial instruments. We do not believe it is necessary to repeat the disclosure in interim financial statements of the methods and significant assumptions previously included in the most recent annual financial statements, particularly for financial assets measured at fair value using observable inputs, as defined in FASB Statement No. 157, *Fair Value Measurements*, unless there has been a significant change from the information provided in an entity's most recent annual financial statements. These concerns are further discussed below in our responses to the FASB's specific questions in the proposed FSP.

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1. *Do you agree that the proposed disclosures should apply to all financial instruments currently included within the scope of Statement 107? If not, which financial instruments do you propose should be included within the scope of this proposed FSP?*

   We agree that the proposed interim disclosures should apply to all financial instruments currently included within the scope of Statement 107 - that is, financial instruments (excluding certain financial instruments described in paragraph 8 of Statement 107) for which it is practicable to estimate fair value. We observe the proposed FSP would not amend the practicability exception or the disclosure requirements related to financial instruments when it is not practicable to estimate their fair value. We believe the practicability exception continues to be appropriate, considering the required disclosures when one avails themselves of such exception.

2. *Do you agree that the proposed disclosures should be applicable to all entities covered by Statement 107? If not, which entities do you propose should be exempt from the proposed additional interim reporting requirements?*

   We agree that the increased frequency of certain disclosures about financial instruments will improve the transparency and quality of information about the differences in the recognition, measurement and, for financial assets, impairment models. However, we believe the proposed interim disclosures will likely have limited utility for users of financial statements for predominantly nonfinancial entities that have relatively few financial instruments, and that limited utility may not justify the costs of making the required fair value estimates for interim reporting periods. We believe the Board should consider excluding certain entities from the proposed additional interim reporting requirements, similar to the Board's decision to exclude certain entities from the requirements of Statement 107 in FASB Statement No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*. For example, we recommend the proposed interim disclosures be optional for an entity for which its financial instruments:

   - are not instruments that (in whole or in part) are accounted for as derivatives under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*,

   - with an aggregate carrying value that is insignificant in comparison to its total assets (e.g., less than 10% or a threshold deemed appropriate by the Board), and

   - are not critical to the core business of the entity.

3. *Are the proposed requirements to disclose fair value information for all interim and annual reporting periods ending after March 15, 2009, operational? If not, what would be an appropriate effective date? Why?*

   Although we are not preparers, we believe the timetable associated with the proposed FSP (i.e., a comment period that concludes 2 March 2009 and includes an effective date approximately 10 business days later) does not provide sufficient time for constituents to adequately consider and implement the proposed changes. We recognize entities are already required to disclose fair value information on an interim basis for financial instruments measured and reported at fair value in accordance with Statement 157 and for debt securities within the scope of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (Statement 115), including securities classified as held-to-maturity and measured at amortized cost. However, US generally accepted accounting principles do not currently require an entity to estimate the fair value of loans and cost-method equity investments as well as an entity's own borrowings for interim reporting periods. For entities with loans or portfolios comprised of several cost-method equity investments, introducing a new disclosure requirement less than 60 days before large-accelerated and accelerated filers are required to file their Form 10-Qs with the U.S. Securities and Exchange Commission may not provide sufficient time for preparers to accumulate the information necessary to estimate the fair value and provide the newly required disclosures for their loan portfolios and cost-method equity investments. As a result, we believe the effective date should be deferred to at least interim periods ending after 15 June 2009, with early adoption encouraged.

4. *Are the proposed requirements to disclose the method(s) and significant assumptions used to estimate the fair value for all financial instruments for all interim periods subsequent to initial adoption operational? Why or why not?*

   We observe that the disclosures required by Statement 107 are specific to financial instruments, as defined in that Statement, and, accordingly, extend beyond the disclosure requirements of Statement 157 and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159), which only apply to assets and liabilities measured at fair value. Similar to the current disclosure requirements in Statement 107, we observe Statement 157 and Statement 159 generally require qualitative disclosure (i.e., narrative disclosure about the methods, techniques, assumptions or inputs used to estimate fair value) in annual periods only. For example, paragraphs 32(e) and 33(d) of Statement 157 require an entity to disclose the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, in annual periods only. Similarly, paragraph 21 of Statement 159 requires an entity to disclose in annual periods only the methods and significant assumptions used to estimate fair value of items for which the fair value option has been elected. The exception to the general principle of including qualitative disclosures only in annual financial statements involves fair value measurements using significant unobservable inputs (i.e., Level 3 inputs). Paragraphs 32 and 33 of Statement 157 require interim disclosures about the inputs and the information used to develop those inputs for both recurring and nonrecurring fair value measurements using Level 3 inputs. However, we observe that the proposed FSP will expand the interim disclosure requirements to include the methods and significant assumptions used in estimating fair value of all financial assets, including (a) financial instruments measured at fair value with observable inputs (i.e., Level 1 and Level 2 inputs) and (b) financial instruments not measured at fair value (e.g., debt securities classified as held-to-maturity under Statement 115, loans and cost-method equity investments).

Although we believe the proposed requirement to disclose at each interim period the method(s) and significant assumptions used to estimate the fair value of financial instruments may provide meaningful information, we question if this requirement is necessary if there has not been a significant change from those method(s) and assumptions previously disclosed in an entity's most recent annual financial statements–especially since there is a presumption that users of interim financial statements will have read the latest published annual report, including the disclosures, and that the interim financial statements will be viewed in that context. Additionally, we question the utility of such interim disclosures for financial instruments whose fair value is determined with observable inputs (e.g., Level 1 or Level 2 inputs), even if there has been a change in the method(s), assumptions, or sources of such Level 1 or Level 2 inputs during the interim period. We observe the Board decided in Statement 157 to not require interim disclosures of changes in the techniques or inputs of financial instruments measured at fair value with Level 1 or Level 2 inputs.

Accordingly, we recommend the Board amend the proposed FSP to not require interim qualitative disclosures about the methods, techniques, assumptions, and inputs for financial assets measured or disclosed at fair value unless (a) there has been a significant change in those methods and assumptions, *and* (b) such methods and assumptions are for financial instruments whose fair value is based on unobservable inputs (i.e., Level 3 inputs).

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Ernst + Young LLP