Via email to director@fasb.org

April 16, 2007

LETTER OF COMMENT NO. 59

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1520-100 Invitation to Comment, *Valuation Guidance for Financial Reporting*

Dear Sirs and Madams,

The Investors Technical Advisory Committee ("ITAC") is pleased to comment on the January 15, 2007, Invitation to Comment, *Valuation Guidance for Financial Reporting* ("ITC"). As you are aware, the purpose of the ITAC is to provide technical accounting advice, from the investors' perspective, to the Financial Accounting Standards Board ("FASB" or "Board") and the FASB staff. This comment letter is consistent with that purpose and represents the views of the ITAC and not necessarily the views of its individual members or the organizations in which they are employed.

As knowledgeable and diverse users of financial accounting and reporting, we support the FASB's objective of issuing the ITC "to begin a public discussion on whether and how the issues related to determining value should be addressed within the financial reporting standard-setting framework." We welcome the opportunity to participate in the public discussion of this important topic. In that regard, we offer the following comments in response to each of the questions raised in the ITC.

Question 1—Is There a Need for Valuation Guidance Specifically for Financial Reporting?

We believe that there is a need for valuation guidance specifically for financial reporting. Any additional guidance should be (1) based on generally accepted valuation methodologies considered appropriate for the item to be valued, (2) consistently applied, (3) transparently disclosed, and (4) consistent with the objectives of financial reporting.

We observe that the FASB has recently issued a standard that provides valuation guidance for fair value measurements[1] and has an ongoing project that is expected to address valuation guidance on a conceptual level.[2] More specifically, as noted in the ITC, in September 2006, the Board issued FASB Statement No. 157, *Fair Value Measurements* ("Statement 157"). Statement 157 "defines fair value [and] . . . establishes a framework for measuring fair value, and expands disclosures about fair value measurements."[3]

Statement 157 was the result of a public due process that extended over three years and included two documents issued for public comment, the receipt and analysis of a large number of comment letters, and public roundtables.[4] Notably, that process involved significant and ongoing input from the valuation community.[5] As also noted in the ITC, although Statement 157 does not "address many specific valuation issues," it does provide guidance on valuation techniques and on the inputs used in applying those techniques.[6]

Statement 157 does not become effective until "financial statements issued for fiscal years beginning after November 15, 2007 . . . ."[7] We, therefore, do not yet have the benefit of the new learning and identification of potential issues that may arise from the broad scale implementation of the standard.

In addition, we observe that in October 2004 the FASB and the International Accounting Standards Board ("IASB") undertook a joint project to strengthen and converge their respective conceptual frameworks "in order to provide a more solid and consistent foundation for the development of future principles-based standards."[8] That project includes a "Phase C: Measurement."[9]

It is our understanding that Phase C will consider whether a converged conceptual framework should include "measurement concepts," and "guidance on measurement techniques."[10] We support, and plan to provide input on, this important project.

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[1] Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Sept. 2006).
[2] Project Update, *Conceptual Framework—Joint Project of the IASB and FASB* (Mar. 9, 2007) (available at htpp:// www.fasb.org/project/conceptual_framework.shtml).
[3] Statement of Financial Accounting Standards No. 157, *supra* note 1, at ¶ C5.
[4] *Id.* at ¶¶ C5-C7.
[5] *See id.* at ¶ C7.
[6] *Id.* at ¶¶ 18-31, C53-C92.
[7] *Id.* at ¶ 36.
[8] FASB Response to SEC Study on Arrangement with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers 7-8 (February 16, 2006).
[9] Project Update, *supra* note 2, at 2.
[10] Halsey G. Bullen & Kimberley Crook, *Revisiting the Concepts—A New Conceptual Framework Project* 12 (May 2005).

Question 1(a)—Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?

We believe that any additional valuation guidance that may be necessary for financial reporting should generally be in the form of conceptual guidance, rather than detailed implementation guidance. We agree that determining values is a fact specific estimation process that requires the application of sound professional judgment by preparers within a framework of conceptual valuation guidance. Preferably any additional conceptual valuation guidance that may be necessary would be included as (1) part of Phase C of the joint Conceptual Framework project, (2) an amendment of Statement 157, (3) part of a new accounting standard, or (4) some combination of (1), (2), and (3).

We also would not object to a combination of additional conceptual valuation guidance and related detailed implementation guidance in very limited circumstances when, in the judgment of the Board, the detailed implementation guidance is necessary to resolve significant diversity in the application of principles for particular fact patterns. Our general concern about providing additional detailed implementation guidance is a result of our strong support for the FASB's announced efforts to reduce the complexity and improve the understandability, consistency, and overall usability of financial accounting and reporting standards.[11] We note that those efforts are intended to include:

> . . . [A]ttempting to stem the proliferation of new pronouncements emanating from multiple sources by consolidating U.S. accounting standard setting under the FASB's auspices, . . . developing new standards that take a 'principles-based' or 'objectives-oriented' approach. And . . . strengthen[ing] . . . [the] existing conceptual framework in order to provide a more solid and consistent foundation for the development of future principles-based standards.[12]

Question 1(b)—What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

We believe the work of any valuation-guidance-setting activities should be of a limited duration which we would generally define as no more than two years. We agree that once any additional valuation concepts or principles and related disclosures, if appropriate, are established, preparers, and auditors should be able to use sound professional judgment in applying and assessing the application of those principles or concepts to all relevant fact patterns. We also agree that the need for further valuation guidance, including updates and improvements to existing guidance, should be reevaluated periodically as part of the FASB's regular agenda setting process.

[11] FASB Response to SEC Study on Arrangement with Off-Balance Sheet Implications, *supra* note 8, at 7-8.
[12] *Id.*

Moreover, as indicated in our response to Question 1(a) above, we believe that a permanent and ongoing process to respond to requests for clarification of valuation guidance would almost certainly lead to the proliferation of detailed rules. Those rules would be inconsistent with the Board's ongoing efforts we support to reduce complexity, increase the exercise of professional judgment, and improve the quality of financial accounting and reporting.

Question 2—What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

We believe that existing appraisal organizations should serve as advisors to the FASB. We agree that appraisal organizations have significant subject matter expertise that should be utilized by the FASB to develop any additional valuation guidance. The FASB has much experience in obtaining input and advice from valuation and similar advisory groups in developing accounting standards.

Two recent examples that might serve as models for utilizing existing appraisal organizations as advisors include (1) the use of the "Valuation Resource Group"[13] in the development of Statement 157, and (2) the use of the "Option Valuation Group"[14] in the development of the measurement guidance contained in Statement of Financial Accounting Standards No. 123, *Share-Based Payment*.

Finally, as indicated in our response to Question 1(a) above, even if we were to conclude that existing appraisal organizations could be restructured to function as independent valuation standard setters, we believe that permitting those organizations to serve as a principle standard setter would obviously lead to new pronouncements emanating from a new source of generally accepted accounting principles. That result would be in direct conflict with the Board's ongoing efforts we support to reduce complexity.

[13] Statement of Financial Accounting Standards No. 157, *supra* note 1, ¶ C7.

[14] Statement of Financial Accounting Standards No. 123, *Share-based Payment* ¶ C20 (revised Dec. 2004) ("Statement 123R"). Of note, we are aware that the Chief Accountant of the Securities and Exchange Commission ("SEC") recently approved Zions Bancorporation's Employee Stock Option Appreciation Rights Securities ("ESOARS") for use as a market-based approach for valuating employee share-based payment awards under Statement 123R. Many valuation experts, including several former members of the Option Valuation Group, generally agree that the ESOARS product produces a biased downward value inconsistent with the fair value measurement objective and related implementation guidance contained in Statement 123R. This incident raises concerns with some members of ITAC as to whether investors can rely on the SEC to act appropriately in circumstances when principles-based valuation guidance appears to have been purposely violated.

Question 3—What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?

As indicated in our response to Question 2 above, the FASB should develop and promulgate any additional valuation guidance with the assistance of a resource group of valuation professionals and other interested parties. We agree that the FASB, the standard setter that specifies the measurement attribute, is in the best position to provide principles-based valuation guidance, after soliciting input from expert resource groups and other parties, on how to determine the value required by that measurement attribute.

We do not believe the FASB should issue valuation guidance with the assistance of an organization structured similar to the FASB's Emerging Issues Task Force ("EITF") nor should such guidance be issued by a separate permanent standard setter. As indicated in our response to Question 2 above, we believe that either approach would be in direct conflict with the Board's ongoing efforts we support to reduce complexity. We, however, do not preclude the potential for EITF involvement, in limited circumstances as described in our response to Question 1(a) above, consistent with the EITF's existing mission.

Question 4—Should the Process of Valuation Guidance Be on an International or National Level?

Although we have some concerns about the duration of FASB/IASB joint projects, we generally believe that the process of providing principles-based valuation guidance should be made on an international basis. We support the international convergence of high quality accounting standards because we believe it will benefit investors by improving the transparency and global comparability of foreign and domestic companies.

As indicated in our response to Question 1 above, we support the joint Conceptual Framework project which is expected to address guidance on measurement techniques. We view measurement and valuation guidance as important elements to achieving international convergence.

We appreciate your consideration of our comments. Should you have any questions or would like to further discuss these comments in more detail, please contact me at 212.261.7081 or jeff@cii.org.

Sincerely,

Jeff Mahoney

Jeff Mahoney
Co-Chair
Investors Technical Advisory Committee