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Mr. Lawrence W. Smith
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Financial Accounting Standards Board
401 Merritt 7
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1520-100

LETTER OF COMMENT NO. 62

File Reference No. 1520-100
Re: FASB Invitation to Comment on *Valuation Guidance for Financial Reporting*

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to respond to the Invitation to Comment on *Valuation Guidance for Financial Reporting* (the "Invitation to Comment"). We support the FASB's efforts to determine whether valuation guidance is needed and, if so, to identify the best process for developing and issuing it.

We believe there is a need for valuation guidance for financial reporting, and we support the FASB's efforts to develop a process to fill that need. The increasing use of fair value in financial statements warrants greater consistency in its measurement; however, today's valuation practices in certain areas often lead to significantly different fair value measurements for the same assets or liabilities under the same facts and circumstances. Although FASB Statement No. 157, *Fair Value Measurements,* establishes an initial framework for measuring fair value, we believe that more objectives-oriented guidance, as well as detailed implementation guidance in certain areas, is needed to improve consistency.

In the pages that follow, we outline what we believe to be the most effective procedures for the development of valuation guidance. However, the FASB could also achieve its desired goals by following certain of the alternative processes set forth in the Invitation to Comment. Whatever process is finally chosen, the following attributes are necessary for success:

- A sufficient number of valuation professionals with appropriate expertise and experience are substantively involved at all levels of the process.
- FASB, at a minimum, has the opportunity to ensure that all valuation standards proffered in the process are approved by FASB to ensure consistency with our established accounting framework.

We believe that the valuation profession, and users of its services, would benefit from increased structure and organization, including licensing, continuing professional education, and disciplinary mechanisms. While FASB involvement appropriately would focus on guidance related to the valuation of assets and liabilities, the process of developing guidance with the involvement of valuation professionals might also serve as a catalyst to reach many of these objectives.

Our responses to each of the questions posed in the Invitation to Comment are included as an Appendix to this letter. If you have any questions concerning our comments, please contact Lisa Delfini at (203) 761-3042, Jeff Green at (212) 436-3580, or Greg Forsythe at (412) 338-7722.

Yours truly,

Deloitte & Touche LLP
cc: Jim Johnson, Robert Uhl

Deloitte & Touche LLP
Appendix
Responses to Questions Posed

Need for Valuation Guidance

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

Yes. The FASB continues to pursue and issue accounting standards requiring or permitting the measurement of more assets and liabilities at fair value. As fair value measurements become more pervasive in financial reporting, the quality of financial statements will become more dependent on the quality and consistency of valuations, creating a need for valuation guidance. Diversity currently exists in practice in determining fair value for many assets and liabilities (because of diversity in valuation techniques, frameworks, etc.). Valuation guidance should provide a framework for consistent application of fair value to financial statements.

There are currently multiple professional organizations that have issued valuation guidance. This fragmented environment contributes to the diversity in practice. The valuation guidance that is developed from this FASB effort should be regarded in the valuation and accounting professions as the best guidance and should override existing valuation guidance for financial reporting purposes. This is best accomplished by FASB taking an integral role and involving valuation professionals with diverse backgrounds and experiences relating to fair value as well as other constituents in the financial reporting community (see our response to Questions 2 and 3).

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

Any valuation guidance issued should be objectives-based, understandable to constituents, and practical to implement and audit. This is consistent with the intent expressed by the FASB with respect to the development of new accounting standards. Many valuation professionals believe that the existing valuation guidance from professional valuation organizations is too broad and lacks objectives. The absence of objectives causes differing views among valuation professionals and accountants as to the appropriateness of the resulting valuation.

Our vision of the valuation guidance begins with "foundational" valuation guidance that would be sufficiently conceptual so as to be applicable to valuations of a wide variety of assets and liabilities. The valuation guidance developed should contain examples illustrating application to various assets and liabilities. Care must be taken in developing the examples to avoid inadvertently establishing "rules" to be followed. We recommend starting with foundational valuation guidance, because if a standard-setting body sets out to issue rules without a sufficient framework, the end result will be a collection of rules that do not fit together and are more difficult to follow and understand. In addition, rules-based guidance would potentially stifle the development of new, improved, and more efficient valuation techniques and approaches. A framework that establishes objectives should not hinder the development of new, improved, more efficient valuation techniques and approaches provided they are consistent with the objectives.

Statement 157 sets forth an important start of a framework for measuring fair value. However, there are many conceptual issues that it does not address and that should be addressed by the foundational valuation guidance. For example, Statement 157 indicates that the price used to measure fair value should be based on market participants in the principal (or most advantageous) market for the asset or liability. However, although Statement 157 gives examples of markets, it does not provide guidance on determining when separate markets exist. While determining the existence of separate markets may be straightforward when a security trades on both the New York Stock Exchange and the Tokyo Stock Exchange, such a determination may be more difficult to make in other situations. For example, most derivative transactions are executed on the over-the-counter market. This is the case for both transactions between a dealer and a retail counterparty as well as with other dealers. Therefore, there is no separate inter-dealer market mechanism. However, due to information asymmetry, a dealer may be able to execute a transaction with a retail counterparty on more favorable terms than in a transaction with another dealer. Although Statement 157 seems to acknowledge this phenomenon as the existence of an "inter-dealer market", some would disagree. As another example, valuation professionals may differ in their assessments of the assets that drive the value of a business acquired. For example, some believe that significant value should be attributed to customer relationship intangible assets, while others believe that the brand name drives the value and therefore would attribute more value to a brand name intangible asset (and less to the customer relationships). While the aggregate value assigned to the assets may be the same, the different approaches to allocating value to such assets and liabilities could have accounting ramifications because of the different useful lives assigned to the assets acquired.

Once completed, the foundational valuation guidance will provide a framework for resolving many of the inconsistencies in valuation procedures. However, there will also likely be a need for further implementation guidance in certain areas. Standard-setting efforts in these areas should begin after the foundational set has been completed. In this manner, conclusions on such issues can be made according to the objectives set forth by the foundational set.

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

As mentioned above, once the foundational guidance is completed, standard setting on more narrow issues may be required. However, standard-setting efforts on more narrow issues may require a smaller scale effort than that required for the foundational set.

In addition, the valuation guidance developed should be considered by the FASB as it undertakes any future standard-setting activities involving fair value. Because an increasing number of items are either required to or can be optionally measured at fair value, practice issues and questions regarding the application of various standards referencing fair value are not likely to diminish after initial adoption of the new valuation guidance. Further, as accounting standards, new markets, products, and technologies evolve, there will be a need to prevent the valuation guidance from becoming obsolete and irrelevant. Therefore, a need appears to exist for the establishment of a permanent group, or for continuance of the initial standard-setting group, to address valuation guidance on a go-forward basis. However, the size and structure of any ongoing group may be different from that of the original group and is best assessed at the completion of the initial foundational effort.

Level of Participation by Existing Appraisal Organizations

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

The involvement of valuation professionals is essential to the development of valuation guidance for financial reporting. While we support the involvement of existing appraisal organizations, it is important that not all input come from a single organization. Rather, input should be sought from a broad range of valuation professionals and organizations to avoid bias, or perceived bias, in favor of any existing set of standards or constituency. For example, valuation professionals who specialize in areas such as financial and nonfinancial assets and liabilities, and both tangible and intangible assets, should be represented in the process. Likewise, valuation professionals from large, mid-size, and small accounting firms as well as both large and small valuation firms should be represented. We encourage the use of a nominating process to formulate a well-balanced standard-setting group that is representative of valuation professionals, auditors, financial statement preparers, and users of financial information.

It is our understanding that multiple valuation professional organizations have devoted time and resources in an effort to be identified as "standard setters" to the profession. This activity is a proactive sign of the profession's recognition of the need for and importance of such guidance. It is common, however, for valuation professionals to specialize as to the services they provide and the professional organizations to which they associate themselves (e.g., real estate). To avoid alienating organizations and their members who can provide insight into the FASB-sponsored development of valuation guidance, the FASB is discouraged from identifying a single organization to serve as the lead contact to the profession. While it may be advantageous to use the structure or work performed to date by a particular organization, it is important that the process for developing valuation guidance for financial reporting include input from a compilation of multiple professional organizations, and that professionals themselves establish a well-rounded basis for the final guidance issued.

Process for Issuing Valuation Guidance

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

We are most supportive of the process suggested by paragraph 16(c) of the Invitation to Comment, which calls for the formation of an organization similar to the current structure and operation of the EITF. The organization should include valuation professionals, auditors, financial statement preparers, and users of financial information. As it does with the EITF, the FASB and SEC should participate in the standard-setting effort. A critical feature that should be emphasized and would distinguish this new organization from the EITF is that the new organization's purpose should not be to address "emerging" issues; rather, its initial purpose should be the development of the foundational valuation guidance we refer to in our response to Question 2. In addition, FASB would need to hire and devote sufficient staff resources with appropriate valuation expertise and experience in order for the process to be successful.

The guidance developed should be subject to the same due process procedures as other FASB documents, including the production of exposure documents for public review and comment, sufficient consideration and redeliberation of issues raised in constituent comment letters, and ultimate approval by the FASB for issuance. We believe that development and issuance of valuation guidance by an organization directly under the FASB's umbrella, such as in the manner described above, is preferable as it consolidates the promulgation of authoritative guidance under one organization and reduces the confusion and complexity around the hierarchy of accounting and financial reporting authoritative literature.

While we have a preference, we acknowledge that a number of different approaches can achieve the goal. However, for any of the potential approaches to be successful, the following attributes are necessary:

- A sufficient number of valuation professionals with appropriate expertise and experience are substantively involved at all levels of the process.
- FASB, at a minimum, has the opportunity to ensure that all valuation standards proffered in the process are approved by FASB to ensure consistency with our established accounting framework.

International Convergence

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

The continued globalization of business operations, business transactions, and valuation service providers supports the need for consistent valuation guidance for financial reporting throughout the world. The process by which valuation guidance for financial reporting is developed should be initiated in coordination with the IASB. This is consistent with the approach currently employed by the FASB and IASB for major accounting standard-setting projects.

While we support and encourage the development of valuation guidance on an international level, we recognize the challenges that may be encountered in attempting to develop converged valuation guidance, especially because converged standards on the definition of fair value do not exist today. However, depending largely on the extent to which financial statement preparers elect or are required to employ fair value, the FASB might need to accelerate national guidance if it appears that international convergence would be unduly delayed.

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