INSTITUTE OF MANAGEMENT ACCOUNTANTS
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1520-100

April 16, 2007

LETTER OF COMMENT NO. 67

Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06851

File Reference No. 1520-100

Dear Mr. Smith:

The Financial Reporting Committee ("the Committee" or "the FRC") of the Institute of Management Accountants appreciates the opportunity to provide its views to the Invitation to Comment about valuation for financial reporting. FRC is the financial reporting technical committee of the Institute of Management Accountants. The Committee reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations.

As the Board is aware, FRC continues to have concerns with certain of the principles embodied in FAS 157 and their implications for financial reporting. For example, we continue to believe that application of that standard to non-traded, non-financial assets and liabilities often will not produce decision useful fair values and could pose significant application difficulties for preparers and auditors. A recent survey of investors by one of the large accounting firms indicates that among investment professionals there are "...pervasive concerns about adoption of any form of current value measurement for illiquid assets and many liabilities." [1] As the effective date of FAS 157 approaches and

[1] *Measuring Assets and Liabilities, Investment Professionals' Views*, PricewaterhouseCoopers LLP (United Kingdom), February 2007. This survey involved interviews of over 50 buy-side and sell-side investment professionals in Boston, London, and New York, as well as a small number on investors in San Francisco, Frankfurt, and Toronto.

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preparers get further along in their implementation processes, we believe that these issues may come into sharper focus. We believe that the Board should carefully monitor these developments and be prepared to take appropriate actions in response to the issues identified.

The FRC agrees that there is a need for additional guidance related to the determination of fair value. However, we do not believe that the FASB is the appropriate body to develop this guidance. The basis for our view is as follows:

- The Board has publicly acknowledged that its limited resources prevent it from pursuing other worthy accounting projects at the present time, so it would appear imprudent to continue to defer or displace such projects in favor of issues that are arguably beyond the core mission of the Board, which is to develop high quality accounting standards.

- In our experience, the valuation profession is a discipline unto itself that requires years of specialized training and expertise working with models and techniques that the Board is not familiar with and which would require a significant investment in time to acquire. We are concerned that without the requisite expertise it would be difficult for the Board to deliberate and reach informed conclusions about these issues, even with the assistance of a group of valuation expert volunteers.

We believe that a separate, independent standard setting organization should be established with the express purpose of developing valuation standards. That organization should comprise experienced, well-respected professionals from the valuation industry, and should seek the views of all constituents on matters germane to the valuation standards under consideration. We believe that such a body should operate under the umbrella of the Financial Accounting Foundation with oversight by the FASB.

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We further believe that the oversight function would operate in much the same way as the SEC provides oversight over the standard setting process of the PCAOB. While such a step will require recognition by the AICPA Council and the SEC, we believe that such recognition is necessary if any progress is to be made in this area.

Our responses to your specific questions are noted in Appendix A. We will be pleased to meet with the Board and Staff at its convenience to discuss these issues in more depth and to clarify any comments contained herein. We also would appreciate being part of any roundtable discussion you might have on this topic.

Sincerely,

Pascal Desroches
Chair, Financial Reporting Committee
Institute of Management Accountants

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APPENDIX A

Question #1: ***Is there a need for valuation guidance specifically for financial reporting?***

Yes, we believe that valuation guidance for financial reporting is needed. There are circumstances that arise fairly often in practice that put auditors and valuation specialists at odds with one another on the proper method to estimate fair value. For example, it is not uncommon for auditors who review the work of valuation specialists to insist on their audit firm's preferred methodology. Valuation professionals might not be familiar with that firm's methodology and potentially might not agree with it. We therefore believe that guidance that moves valuation practice in the direction of generally accepted valuation approaches would be productive and helpful.

1a: ***Should valuation guidance include conceptual valuation guidance, detailed implementation guidance, or a combination of both?***

In an ideal world, only conceptual guidance would be necessary. However, based on our recent experience, we believe that more targeted guidance may be necessary in certain areas. For example, should a tax adjustment be included or not be included in the value of an intangible in an impairment-testing situation. This adjustment, which is called the "tax amortization shield," adds about 15% to value. We believe it would be helpful to valuation practice to have such valuations treat the tax adjustment in the same way.

1b: ***What should be the duration of any valuation-guidance-setting activities?***

As businesses continually change and valuation requirements develop, we do not believe that this standardization effort can be considered a "one-shot" effort. Rather it will be a continuing requirement.

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Question #2: ***What level of participation should existing appraisal organizations have in establishing valuation guidance for financial reporting?***

We believe that a separate, independent standard setting organization should be established with the express purpose of developing valuation standards. That organization should comprise experienced, well-respected professionals from the valuation and appraisal industry and should seek the views of all constituents on matters germane to the valuation standards under consideration. As described in our cover letter, we believe that such a body should operate under the umbrella of the Financial Accounting Foundation, with oversight by the FASB, and should be recognized by the AICPA Council and by the SEC. We believe that such recognition is necessary if any progress is to be made in this area.

Question #3: ***What process should be used for issuing valuation guidance for financial reporting?***

As noted in question #2, we believe that the valuation standards setting body should be formed to address valuation issues for financial reporting. This organization should follow a robust due process similar to the FASB and operate under the auspices of the Financial Accounting Foundation.

Question #4: ***Should the process of valuation guidance be on an international or national level?***

Ideally, this should be an international effort. Just as the Board has recognized that global accounting standards are the best long-term solution for the worlds capital markets, so it should be with valuation standards. However, we acknowledge that it may not be feasible to do so in the short term. We therefore recommend that the work begin as a U.S.-based initiative with the goal of broadening it to an international effort at the earliest feasible point in the process.

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Other Issues

1. ***Who should grant authority to issue the valuation guidance?***

   We believe that the SEC should grant authority for an independent valuation standard setter to promulgate such guidance.

2. ***What due-process procedures should the standard-setter follow in issuing valuation guidance?***

   The due process procedures followed by the FASB seem equally appropriate for a valuation standards setter. We believe that it is important that the process for developing and deliberating these standards is as open and inclusive as possible.

3. ***How should any organization that issues valuation guidance be funded?***

   As discussed in our cover letter, we envision an independent organization that would operate under the umbrella of the Financial Accounting Foundation. Under that model, it would be reasonable for such an organization to be funded in the same way as the FASB.

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