

Investors Technical Advisory Committee

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LETTER OF COMMENT NO. 10

Via Email

October 16, 2007

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Chairman:

The purpose of this letter is to provide the Investors Technical Advisory Committee's ("ITAC") views on the Financial Accounting Standards Board's ("FASB" or "Board") scheduled October 17, 2007, consideration of an agenda decision on deferral of the effective date of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("Statement 157").¹

As you are aware, the ITAC comprises twelve individuals from the investment profession possessing strong technical accounting knowledge.² The purpose of the ITAC is to provide independent technical advice, from the investors' perspective, to the Board and its staff. This letter represents the views of the ITAC and does not necessarily represent the views of its individual members, the organizations by which they are employed, or the views of the FASB or its staff.

For the reasons outlined below, we do not believe the Board should delay the effective date of Statement 157.

As an initial matter, we note that Statement 157 was developed in response to input from many parties who support principles-based accounting standards, but believed that there needed to be more consistent "guidance for applying the fair value measurement objective" in existing generally accepted accounting principles ("GAAP").³ We also note that Statement 157 was subject to extensive due process, including more than three years of public meetings, two documents issued for public comment, the receipt and analysis of more than 100 comment letters, and solicitation, receipt, and analysis of input from the Board's Valuation Resource Group, the Financial Accounting Standards Advisory Council, the User Advisory Council, members of the Investor Task Force, and many other interested parties.⁴ Finally, although Statement 157 generally "does not require any new fair value measurements," the Board provided more than thirteen months between the issuance of the final standard and the required effective date.⁵

¹ Action Alert No. 07-41, 1 (Fin. Accounting Standards Bd. Oct. 11, 2007).

² For more information about the Investors Technical Advisory Committee ("ITAC"), including a list of the current members and the organizations in which they are employed, see http://www.fasb.org/investors_technical_advisory_committee/itac_members.shtml.

³ Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ¶ C4 (Fin. Accounting Standards Bd. Sept. 2006).

⁴ *Id.* at ¶ C6.

⁵ *Id.* at ¶ C106; Accord Center for Audit Quality, *Measurements of Fair Value In Illiquid (Or Less Liquid) Markets* 3 (Oct. 3, 2007), available at http://www.aicpa.org/caq/download/WP_Measurements_of_FV_in_Illiquid_Markets.pdf (Noting that "with respect to the valuation issues discussed in this paper, differences arising solely from whether or not an entity has adopted FAS 157 will be limited").

The ITAC believes that Statement 157 provides at least three significant benefits to investors who use financial reports to make economic decisions. First, Statement 157 provides a single principles-based definition of fair value clarifying existing guidance that in some standards was more implicit than explicit.⁶ The standard's principles-based definition of fair value will improve the comparability and consistency of the fair value measurements.

Second, Statement 157 also will meaningfully improve the consistency and comparability of the fair value measurements by establishing a single fair value hierarchy that prioritizes the inputs used to measure fair value.⁷ We agree that the hierarchy created by Statement 157 “provides a useful construct for considering the relative reliability of fair value measurements.”⁸

Third, and perhaps most importantly, Statement 157 requires expanded disclosures about the use of fair value to measure assets and liabilities.⁹ Those disclosures, including the quantitative disclosures of the amount of an enterprise's “Level 3” net assets and their impact on reported earnings, are already proving to be of significant interest and use to investors when evaluating the results of companies who early adopted Statement 157.¹⁰ We further note that beyond the information mandated in the disclosures, the application of Statement 157 has resulted in a much more robust dialogue with investors surrounding a company's valuation inputs and drivers and their effects on earnings – information which was sorely lacking in the past. The Statement 157 disclosures are likely to continue to play an important role for investors, including during the ongoing turmoil in the credit markets.

The ITAC acknowledges that there are a number of implementation issues that have been raised about Statement 157.¹¹ Some of those issues were addressed during the development of Statement 157 or have otherwise been addressed by the Center for Audit Quality's October 3, 2007, paper entitled “Measurements of Fair Value in Illiquid (or Less Liquid) Markets.”¹² Moreover, some of the issues that have been raised should, in our view, not be addressed by the Board because they are requests for detailed rules-based guidance or bright-line tests that are unnecessary and inconsistent with a principles-based approach to financial reporting.¹³

⁶ See Statement 157, *supra* note 3, at ¶ C25.

⁷ *Id.* at ¶ C64.

⁸ *Id.* at ¶ C65.

⁹ *Id.* at ¶¶ C32-C34.

¹⁰ See, e.g., Bhattiprolu Murti, *Goldman Sachs's Level 3 Assets Were \$72 Billion in Third Quarter*, Wall St. J., Oct. 10, 2007, available at http://online.wsj.com/article/SB119202158945354654.html?mod=googlenews_wsj.

¹¹ See Letter from Arnold C. Hanish, Chairman, Committee on Corporate Reporting, Financial Executives International (“FEI”) & Karen Rasmussen, Chair, Small Public Company Task Force, FEI, to Robert H. Herz, Chairman, Financial Accounting Standards Board (“FASB”) (Oct. 1, 2007), available at <http://www.financialexecutives.org/eweb/upload/FEI/FAS%20157%20100107%20Final%20clean.pdf>.

¹² See Center for Audit Quality, *supra* note 5, at 3 (Referencing language contained in Statement 157 and responding, for example, to “[q]uestions [that] have arisen about whether current market prices are consistent with the definition of fair value in FAS 157, or whether current market prices are more indicative of distressed sales”).

¹³ FEI's letter to the FASB requesting a deferral of Statement 157 contains a number of requests for detailed rules-based guidance or bright-line tests to supplement the principles-based guidance contained in Statement 157. See *id.* at 6-12. As one example, FEI requests guidance on “how many permutations/iterations does a reporting entity need to perform if multiple market participants exist in each exit market with multiple potential uses?” *Id.* at 6.

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Thus, given the significant benefits that Statement 157 provides to investors and the implementation issues that have to-date been raised by various parties, the ITAC does not support a deferral of Statement 157. As was evidenced in many, if not most, accounting standards issued in recent history application uncertainties undoubtedly will emerge during (and even after) implementation. It is neither unexpected nor uncommon and in our view should not translate into a “wholesale” delay of the effective date of accounting standards.¹⁴

A principles-based environment should allow for discretion to be applied by preparers and accepted by auditors and regulators. In such an environment, more implementation guidance, when necessary, should be provided over time (either through emerging common practices or standard-setters’ clarifications). We believe investors and other users are more comfortable with such an approach to implementation guidance and clearly would prefer it to the alternative of a delay until accounting standards are refined to a level of “flawlessness.”

We are optimistic that most of the “early experience” implementation issues raised to-date with respect to Statement 157 can be expeditiously resolved through the application of a principles-based mindset to those quandaries. In some cases those issues may require timely assistance from the Center for Audit Quality. In other more extreme cases those issues may require assistance from the Board through the issuance of a FASB Staff Position. In those circumstances, the ITAC will be happy to assist the Board in promptly developing principles-based guidance necessary to resolve those issues.

If you have any questions, please feel free to contact the undersigned or any ITAC member.

Sincerely,

A handwritten signature in black ink that reads "Jeff Mahoney". The signature is written in a cursive, slightly slanted style.

Jeff Mahoney
Co-Chair
Investors Technical Advisory Committee

¹⁴ As knowledgeable observers of and participants in the FASB’s public due process, ITAC members are also concerned that a one year deferral of Statement 157 could result in a multi-year or permanent deferral of what is a very important accounting standard for investors and other users of financial reports.