

PricewaterhouseCoopers LLP 400 Campus Dr. Florham Park NJ 07932 Telephone (973) 236 4000 Facsimile (973) 236 5000 www.pwc.com

June 1, 2009

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File reference: Proposed FSP FAS 157-f

Dear Mr. Golden:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on proposed FASB Staff Position No. FAS 157-f, Measuring Liabilities under FASB Statement No. 157. The principles of FASB Statement No. 157, Fair Value Measurements (FAS 157), can be difficult to apply when measuring the fair values of liabilities and the FSP would clarify the Board's position when using inputs other than the identical liability traded in active markets. We support the clarification in the FSP of the appropriateness of using pricing inputs, such as the price of a liability when traded as an asset, when measuring the fair value of a liability.

To clarify the guidance we suggest the FASB consider the following points for incorporation into the final FSP:

- 1. The proposed FSP refers to "another valuation technique that is consistent with . . . Statement 157" and includes as an example use of an entry price as an approach to measuring the fair value of liabilities. As the FSP points out, the transfer of liabilities to credit equivalent counterparties is extremely rare in practice and a majority of liabilities are not traded as assets in either active or inactive markets. As such, reporting entities valuing these liabilities will need to default to a valuation method consistent with the guidance in FAS 157. It would be useful to practitioners to clarify that an entry price or origination value is one of the methods that may be used when appropriate in the circumstances. We believe that this notion is included in the guidance in par. 9(d) of the FSP; however, highlighting it in a separate paragraph may better inform practitioners as to use of this method when valuing liabilities using entity specific information. Such a paragraph should include the appropriate limitations on the use of an entry value over an exit value and reaffirm the conditions under par. 30 of FAS 157 that should be met in order to use an entry value.
- 2. Paragraph 9 lists four possible approaches to measure the fair value of a liability. However, items 9(b) and 9(c) are not per se a fair value measurement approach but represent inputs to a fair value measurement. We suggest including language at the end of 9(b) and 9(c) to reflect this, such as "... properly adjusted as necessary to

## PRICEV/ATERHOUSE COPERS @

reflect a market participants expectations of fair value," which would be consistent with FSP FAS 157-4. Additionally, item (a) would be at a higher level in the fair value hierarchy than items (b), (c), and (d), which in most cases would be equal to each other in terms of being either level 2 or level 3 depending upon the significance of the unobservable inputs to their fair value determinations. We suggest that par. 9 be revised so that the approach described in 9(a) is clearly distinguishable from 9(b), (c), and (d).

- 3. Paragraph 11 of the FSP references restrictions and states that "an entity shall not include a separate input or adjustment to other inputs relating to the existence of a contractual restriction that prevents the transfer of a liability." The paragraph explains that an adjustment is not necessary as restrictions are included in the transaction price. However, the inclusion of a restriction in the transaction price at the time of a liability's inception does not necessarily provide evidence of its value at the measurement date. For example, the value of the restriction at the issuance date may be different than the value of the restriction at the measurement date since the restriction's fair value can change during its life. Accordingly, we recommend that a different rationale be included in the final FSP to support the Board's decision not to require a separate adjustment for transfer restrictions. One approach to is to have the FSP refer to the discussion of fair value measurements of liabilities in paragraph 15 of FAS 157, which makes it apparent that, unlike when valuing assets, valuations of liabilities exclude concepts such as "legally permissible" and refers directly to the transfer value of the unit of measurement.
- 4. Example 12 appears to be structured consistent with an Expected Present Value Technique Method 2 as described in paragraph B15 of FAS 157. However, only input (a) labor costs is described as being probability weighted; the other cash flow inputs (b) overhead, (c) profit and (d) inflation effect are not specifically referenced as being the result of a similar probability weighted approach. We recommend the example be clarified to describe each of the above inputs as developed from probability weighted cash flows so that all cash flow elements are consistent with the general notion of expected cash flows.

We appreciate the opportunity to express our views on the proposed FSP. If you have questions regarding our comments, please contact Russell Mallet at (973) 236-7115 or Tom McGuinness at (973) 236-4034.

Sincerely,

PricewaterhouseCoopers LLP